



# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARING

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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SEPTEMBER 6, 1956

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

## Soviet Redefection Campaign

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THURSDAY, MAY 31, 1956

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION  
OF THE INTERNAL SECURITY ACT AND OTHER  
INTERNAL SECURITY LAWS, OF THE  
COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to adjournment, at 10:45 a. m., in the caucus room, Senate Office Building, Senator James O. Eastland, chairman, presiding.

Present: Senator Eastland.

Also present: Robert Morris, chief counsel; William A. Rusher, administrative counsel; Benjamin Mandel, research director; Robert McManus, research analyst; Jonathan Mitchell, consultant to the committee; and F. W. Schroeder, chief investigator.

Chairman EASTLAND. The hearing will be in order.

Mr. MORRIS. Mr. Chairman, the evidence this morning will be testimony by Congressman Walter H. Judd on Communist activity in China, which will include activity on the part of American citizens assigned by the United States.

Chairman EASTLAND. Mr. Judd, will you stand and be sworn, please?

Mr. JUDD. Yes, sir.

Chairman EASTLAND. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JUDD. I do.

### TESTIMONY OF HON. WALTER H. JUDD, A REPRESENTATIVE IN CONGRESS FROM THE FIFTH DISTRICT OF THE STATE OF MINNESOTA

Mr. MORRIS. Mr. Congressman, will you give your name and address to the reporter?

Mr. JUDD. My name is Walter H. Judd. I am a Member of Congress from the Fifth District of Minnesota, which is in Minneapolis.

Mr. MORRIS. I wonder if you would give us for the record, Congressman, your own experiences in China.

Mr. JUDD. I went to China, sir, in 1925 as a medical missionary. I spent 1 year in Nanking studying the language, and then spent 5 years in Fukien. That is the province in south China right opposite the island of Formosa.

I had been there a few months when the Nationalist armies came into the area. Chiang Kai-shek was marching north to overcome the war lords and unify China. The second or third outfit of Chinese troops which came into our city was just plain propagandizing communism. This was in December, 1926. Much to our surprise, they were not advocating unity in China. They were advocating a Communist revolution. This was my first inkling of how deep was Communist infiltration in China.

Then, in the following spring, 1927, when the Generalissimo captured Nanking and Shanghai, the Communists rose in rebellion and tried to overthrow the Generalissimo. They had announced he was to be the Kerensky of the Chinese revolution. They would use him to get victory over the war lords, and then throw him out, much as the Russians threw out Kerensky in Russia, after he had overthrown the Czar.

Well, Chiang defeated them, the only real defeat they have ever had to this date. So, naturally they set out to destroy him more than any other man in the world. He was the first international figure that got wise to the Communist conspiracy, and has been unfooled by it ever since.

The Communists, after their defeat in 1927, moved into Kiangsi Province, which is right next to Fukien, where I was. There was no other doctor in that area, and whenever important personages became ill or wounded, they would come over the mountains to my hospital. I would say, "How were you wounded?"

They would say, "We were out fighting bandits."

Of course, it was not my business to ask further questions, just to get them well.

Within 2 or 3 days, I would find out, because these Communists are evangelists. As soon as they get a little better and forget their pain, they start propagandizing the orderlies, the nurses, the doctors, and everybody else.

So I dealt with those Communists as individuals until finally they came over into our province in 1930, when the Generalissimo had to go north to fight the last major civil war. He pulled his troops out to go north, and they took our area over.

At the end of 1930, he sent his troops back in and the Communists left. They never will fight unless they are sure of victory. So I saw them from 1926 to 1940 and was under their regime for 8 months in 1930. I never could understand how anybody got the idea that was so popular in the United States that the Chinese Communists are just democrats and agrarian reformers.

I was ill with malaria, and came home in 1931. The doctor told me I couldn't go back to China because of malaria, so I went to work in the Mayo Clinic in Rochester, Minn.

In 1934, I had recovered and was as good as before. There was an urgent need for a doctor in one of our hospitals in northwest China. It is so dry up there that there are no mosquitoes and therefore no malaria. So I resigned at the Mayo Clinic and went back out to China. Oddly enough, the Communists, that year and the next, took a long 6,000-mile march and landed in the same part of northwest China where I had gone. Both of us went there for our health. So I saw them in action again.

In 1936, 1937, and 1938, they were all over that area. The general, Lin Piao, who was later head of the Fourth Field Army, the army that killed so many of our boys in Korea, was a patient of mine in January or February of 1938. His headquarters was only 6 miles outside my city.

With that long background of personal observation, I had a good many conversations with Communist leaders, frank discussions of their deceptions. Whenever they are in trouble, they advocate a coalition, talk peace until they can build up their strength. As soon as they are strong enough, they start a rebellion and overthrow the local forces and resort to violence again. Therefore, my own convictions would probably not be called theoretical but based primarily on personal experience.

I am sorry for such a long answer.

Mr. MORRIS. Congressman, in going through the Morgenthau diaries, which we have, we have come across one particular document dated October 28, 1944, which mentions a visit that you made to Chungking at that juncture in history.

I wonder—Mr. Mitchell, would you identify this document, please? Senator, Mr. Mitchell has been sworn to identify documents.

Mr. MITCHELL. This is from book 787, and it includes pages 273 to 277 in the Morgenthau diaries.

Mr. MORRIS. This makes reference, does it not, to an appearance Dr. Judd made in Chungking, wherein he had made a speech?

Mr. MITCHELL. Yes, sir; it does.

Mr. MORRIS. This is a letter from Irving Friedman, isn't it?

Mr. MITCHELL. This is a letter from Irving Friedman to Harry Dexter White, a personal letter, accompanied by a memorandum from Mr. White, forwarding the letter to Secretary Morgenthau.

Mr. MORRIS. The letter from Friedman in China was October 7, 1944?

Mr. MITCHELL. Yes, sir.

Mr. MORRIS. The forwarding letter was October 28, 1945, was originally classified as secret, and was declassified by the War Department, January 20, 1956.

Congressman, can you remember making a visit to China at that time?

Mr. JUDD. Yes, sir.

Mr. MORRIS. I wonder if you would relate what happened at that time?

Mr. JUDD. I have dug up a statement I made to the press, October 5, 1944, in Chungking. There were all sorts of alarming stories coming out of China, that the Chinese Government was about to collapse, that it was full of rottenness and corruption, and that the Chinese Communists were the forces we should be supporting. Members of Congress naturally don't have the direct sources of information that the State Department and the Pentagon have through their intelligence agencies. A good many of my colleagues said they couldn't figure this China thing out. While some of us were visiting Europe—our forces had just landed in Normandy—I got a telegram from the United States authorizing me to go on to China, which I did, to see and study the situation firsthand.

I landed in Chungking, unintentionally, just about the time that General Stilwell was replaced by President Roosevelt, and General Wedemeyer was brought in.

I spent most of my time talking to the Chinese. There were a good many Chinese there whom I had known in north China. They had fled to west China in the great retreat before the Japanese. They were known to me, and reliable; they had been teachers or doctors with whom I had been associated; most were not party people. They were not political figures. But they knew and would tell me what the situation was with respect to the Nationalist Government and with respect to the Communists. I got a good deal of information.

I talked, of course, to our officials there. I stayed with General Hurley in his home. Donald Nelson had left for America just the day before I came. I talked a long time to General Stilwell, whom I had known in north China when he was our military attaché in Peking. I talked to Ambassador Gauss.

The thing that disturbed me most was the conversations I had with some of the junior members of our Embassy Staff and some of the colonels—that general level in our military staff. A surprising number of them were following just one line, that we must ditch the generalissimo, his government was hopeless, and we must back the Communists, because they were (1) democratic, (2) they were interested in the well-being of the people, (3) they would be more cooperative with us than the generalissimo, because the generalissimo had been unwilling to accept General Stilwell's proposal to ship lend-lease material up to the Communists, and so on. These Americans were all for arming the Communists—all for making the Communists the main agency that we would back in China. I was sure that would be disastrous. I could not figure out why so many of our Americans would be just chanting what, to me, was the Communist Party line, and which later proved to be the Communist Party line.

I don't know for sure what you had in mind. Do you want me to comment on what Mr. Friedman says?

MR. MORRIS. Yes, I wish you would. You have read the letter, have you not?

MR. JUDD. Yes, you showed me the letter.

The last night I was there, there was a meeting in Chungking, a so-called American-Chinese cultural society, or something like that. It was an organization of Americans and Chinese who had been educated in the United States and spoke English. They met perhaps once a month for social and cultural purposes, and they asked me to come to their meeting and speak, which I did. It was my speech which Mr. Friedman reports. I don't know whether he reported it to Morgenthau or White or somebody else.

CHAIRMAN EASTLAND. Who is Friedman, Mr. Judd?

MR. JUDD. Mr. Friedman was, at one time, I think, part of the Far East Division of the State Department. I don't know Friedman personally. I think you will have to ask Mr. Morris that question.

MR. MORRIS. He is now Director of the Exchange and Redistribution Department of the International Monetary Fund, but, at that time, he was working for the Treasury Department in China.

I wonder if you could tell us who were some of the other American officials who, as you describe, were taking a position inconsistent with the stand of our Government at the time?

Mr. JUDD. I didn't get to talk to all of these people personally that I shall name. I did get to talk to some of them. It was common conversation that the leaders were the so-called four Johns, John Carter Vincent, John Stewart Service, John Paton Davies, and John Emmerson.

Then there was a man named Raymond Ludden. Not only these men from the State Department, but also a man named Stelle——

Mr. MORRIS. Is that Charles Stelle?

Mr. JUDD. Charles Stelle, and also John K. Fairbank and his wife, Wilma Fairbank. They were working for the FEA, the Foreign Economic Administration, as I recall, down in Kunming.

Mr. MORRIS. Many of those are still in the United States Government today, are they not?

Mr. JUDD. Some of them are, and some of them are not.

Then there were, from our military, colonels and majors who took the same position, and most of the members of the American press. I couldn't identify them by name, but representatives of our various newspapers and news services. I don't remember which one belongs to which agency. This was 12 years ago. It was only brought up in the last day or two, and I haven't had a chance to refresh my memory completely.

Mr. MORRIS. Generally, what were they doing? Were you able to observe anything other than what you have said?

Mr. JUDD. No, I don't know anything more about their work. There was a universal line that America should ditch our ally, the Nationalist Government of China, and put our chips on the Communists. That disturbed me tremendously, so when I was invited to speak at this cultural society, I remember that the major burden of my talk was that, despite rumors they might have heard to the contrary from some of our representatives, the rank and file of the American people and the Congress and the administration, from Mr. Roosevelt on down, were strongly supporting the Nationalist Government of China.

There were many reasons for that which I related. It was our ally; it had stood by us in our darkest hours after Pearl Harbor. The Japanese had made 12 attractive peace offers to Chiang Kai-shek, saying that, if he would agree to ease up and sign a peace which would release Japan's forces to fight against the United States, Japan would make such and such concessions. They were very generous concessions, and he rejected every one of those peace or truce offers from the Japanese, and stood by us when our fortunes didn't look too good.

He took the brunt of the Japanese attacks, not only for 4½ years while we were helping the Japanese by selling oil and scrap iron to them, but during the first 2 years after Pearl Harbor, while we were rebuilding our Navy, which had been destroyed at Pearl Harbor.

I recall saying in that speech that American public opinion had been uninformed regarding China. In the beginning, in 1937, when Japan attacked China, a lot of people had said: Chiang Kai-shek can't last 30 days—or 90 days, or 6 months. They have been announcing his downfall every 6 months since 1927, pretty nearly 30 years, and he is still going.

I said we had underestimated the strength of the Chinese and their will to resist, until Pearl Harbor where Japan gave us the worst defeat we have had in our history. We then said: My goodness, these Japanese are good. If they can lick us, how could the Chinese hold out so long against them?

So, instead of underestimating the Chinese, we began to overestimate them. They were all heroes. Madame Chiang Kai-shek came over here, and there developed an idealization of China which was unjustified. China was not that good, and the Chinese forces not that strong.

Then came the long period of exhaustion, after the longer period of resistance, and the inflation that goes with the loss of almost 90 percent of their tax base—the Japanese had taken over the railroads, the textile mills, the industries, the richest of land. There was not enough industry or trade left from which Chiang could raise taxes, so he had to resort to the printing press. That caused inflation, which always leads to corruption.

These were the weaknesses that were developing in China: economic deterioration, political deterioration, moral deterioration, military deterioration. I thought it was our bounden duty to try to strengthen our ally and encourage and give moral and political, as well as economic and military, assistance to that ally when it was hard pressed.

So that was the burden of my talk. I understand that, all unbeknownst to me, it sort of threw a panic into the minds of some of those people, because they had about convinced a lot of our folks that we ought to ditch the generalissimo, and here was a Member of the Congress saying that the Congress and the American people were supporting the generalissimo.

Mr. MORRIS. Now, Congressman, based on those experiences, were you able to observe how Communists act to undermine a government's policies?

Mr. JUDD. Well, yes.

Mr. MORRIS. In other words, how can we, on the Internal Security subcommittee, in assessing the situation of internal security—how can we look for signs that will indicate that somebody could be a subversive person?

Mr. JUDD. Well, there are many things they do. They are very clever. Let me give one illustration, if you will let me give this background, because I think this is the overall picture of what has happened during these years.

Hitler originally built up his movement primarily against communism and Russia was afraid of Hitler. Japan embarked upon her aggressive moves primarily because of the threat of the Soviet Union.

So, here was the Soviet Union, in the thirties, faced with Hitler coming up on her west and Japan coming up on her east. Obviously, she had to decide how to protect herself. So, in 1935, she hit upon this tactic of proposing a united front. Instead of denouncing the Socialist movement as deviationist, Communists said: "We'll work with all democratic forces, anywhere, against fascism?"

So a line went out to convince us that we should cooperate with all the Soviet fronts. We had organizations like the American League for Peace and Democracy, the League Against War and Fascism, and so forth. Scores and scores of fronts. It was a brilliant tactical

move because they rallied to their side most of the democratic and idealistic forces around the world.

They still had to divert Hitler and Japan. How could they do it? First, they made a deal with Hitler, whereby he was assured that Russia wouldn't attack him on his east, and this turned him against Norway and the Low Countries and England and France in the summer of 1940. By the time he got around to Russia in 1941, he had to fight a two-front war. If it hadn't been for that, he might have defeated Russia. So Russia handled her diplomacy so skillfully as to weaken Hitler by fighting the West before he got around to her.

How could she divert Japan? The strategy was to get Japan bogged down in China and involved with the United States. All the leftist movements in China advocated war with Japan. The students used to lie down on the railroad tracks in 1934, 1935, 1936, and 1937 threatening to let themselves be run over unless they were transported to Nanking, where they could demand that Chiang fight the Japanese. They seized the Foreign Minister, C. T. Wang, beat him up, nearly killed him.

China wasn't trying to fight Japan. She was trying to avoid a war, just as we are today. We are taking all kinds of insults today to try to avoid a war. The Communists were calling Chiang Kai-shek every kind of traitor because he wouldn't start a war with Japan that he couldn't win. They kidnaped him, as you probably recall, trying to force him to start a war with Japan.

Finally, in 1937, the Marco Polo Bridge incident started war with Japan. That bogged Japan down in China, relieving the Russians of pressure from Japan.

Actually, the Japanese war also saved the Communists up in Northwest China. When I was in Japan last fall I talked with a high Japanese official who said there isn't any question but that we saved the Communists. They were down to about 14,000 men in caves at Yen-an. After Japan struck, the Communists said to Chiang Kai-shek, "We will give up our Communist program in order to fight together against the common enemy," and Chiang took them at their word. This was his mistake. But he had to fight a war against his external enemy, Japan, and he accepted the Reds in a coalition, the same as we did against Hitler; and as other people around the world did, when we were faced with an external enemy.

Now, in order to keep Japan bogged down in China, so that she could not threaten China during those years, the Communists were the ones that praised and helped Chiang the most. I came back to this country in 1938 to try to get our supplies shut off from Japan. Nobody helped me more than the Communists. I was a little naive about these things, and Communists arranged meetings for me. I spoke at some of them until I got smarter. Owen Lattimore built up Chiang Kai-shek and called him the George Washington of China.

But, by 1943 Hitler was retreating; he had failed to conquer Russia from the west. We had recovered from Pearl Harbor; we were beginning our march west across the Pacific; MacArthur was coming up from Australia. It was clear that Japan couldn't take on a third enemy, Russia, in addition to China and the United States. Mother Russia had been saved from Hitler and from Japan.

Now, I am getting around to my point. At that time, the line changed overnight, both in and out of government. Chiang, the man

who had been the great George Washington of China, became a Fascist, a reactionary, a warlord, a brute, a tyrant, a dictator—every cuss word they could find. The attack on him began simultaneously all over the world like, when somebody pulls a master switch, all the lights in this building go on or off.

When a line changes simultaneously, all over the world, and begins to be mouthed by people in our own Government at the same time, it makes you suspicious.

The next thing that the Communists pull, of course, is delay in carrying out policies and instructions that they do not like. For example, after Dunkerque, Mr. Roosevelt ordered a survey to be taken of the surplus rifles and ammunition we had in the United States, to replace what the British had lost at Dunkerque. In 8 days, they were being loaded into boats at Perth Amboy to go to England.

In contrast, the Congress in 1948, passed a law, which the President signed on April 3, authorizing economic and military aid to the Republic of China. It was hard pressed. But it was 8 months before a rifle moved. You see, when they want it they can get quick results. When they don't want it, things don't happen.

Another thing you can notice is in directives. A directive always starts out with a slashing statement against communism. It takes a strong position, in line with the Government's official policy.

Mr. MORRIS. Whose directive, now, are you talking about?

Mr. JUDD. Our high officials'. I have seen this happen so many times. I will give you one. I think I have it here. It is the one that General Marshall had when he went out to China. I have asked him several times who wrote it, because you will see why we lost in China when you read this directive. It was issued by Harry S. Truman on December 15, 1945. Here is a sentence:

The existence of autonomous armies, such as that of the Communist army, is inconsistent with, and actually makes impossible, political unity in China. With the institution of a broadly representative government, autonomous armies should be eliminated as such, and all armed forces in China integrated effectively into the Chinese Nationalist Army.

The Generalissimo had said, let them first do what Lee did at Appomattox, let them lay down their arms, and then we will take them into the government. This directive said, take them in first, and then let them lay down their arms.

Now, listen here:

In line with its often-expressed views regarding self-determination, the United States Government considers that the detailed steps necessary to the achievement of political unity in China must be worked out by the Chinese themselves, and that intervention by any foreign government in these matters would be inappropriate.

You see, there is to be no intervention.

The United States Government feels, however, that China has a clear responsibility to the other United Nations to eliminate armed conflict within its territory as constituting a threat to world stability and peace—the responsibility which is shared by the National Government and all Chinese political and military groups.

Here, now, is the hooker, in the last paragraph. Here is where we intervene to say how it must be done:

As China moves toward peace and unity *along the lines described above*<sup>1</sup>—

<sup>1</sup> Emphasis supplied.

first, take the Communists in, then they give up their separate armies—

the United States would be prepared to assist the National Government in every reasonable way to rehabilitate the country, improve the agrarian and industrial economy, and establish a military organization capable of discharging China's national and international responsibilities for the maintenance of peace and order.

The reason I was immediately suspicious about that directive was the phrase "peace and unity" as the condition of our assistance. Some months before, that line, the "peace and unity" slogan, had started out. All over our country, in the usual leftist circles, the line had appeared: We must have "peace and unity" in China. Here is one from the Foreign Policy Bulletin of October 24, some months before this. It is in an article by Lawrence K. Rosinger, who, I understand, has taken the fifth amendment before this subcommittee. Henry Wallace had made 3 or 4 speeches, always demanding "peace and unity" in China. It suddenly became the watchword, "peace and unity."

Now, it showed up in the President's directive.

Now, look at that a moment. How do you get unity in a country where there is an armed rebellion? There are only two ways. One is to put it down. That is what we did in the United States when we had an armed rebellion in 1861. But that was unity and war. We said to the Chinese, you can't do that, you must have *peace* and unity.

How do you get that. There was only one way, to yield to the Reds, which the Generalissimo wasn't willing to do.

The Communists knew what that meant, even if we didn't.

Read from the directive again:

As China moves toward peace and unity along the lines described above, the United States would be prepared to assist the National Government in every reasonable way. \* \* \*

The Communists said to themselves, if Chiang gets peace and unity, the United States is going to help him; he wins, we lose. But this condition means that if he doesn't get peace and unity, the United States won't help him. He can't make it without American help, any more than France or England or many other countries could. So, all we Communists have to do to block American aid, destroy Chiang and take China over for communism is to see that he doesn't get peace and unity. And General Marshall wondered why he could not get peace and unity in China. His own directive made impossible the success of his mission. I asked him once privately, and once in our Foreign Affairs Committee in the House: "Who drafted that last paragraph?" I would like to know, and I never could get an answer.

When you observe that sort of thing, you know it can't happen by accident. All of a sudden, the whole leftwing all over the United States, cries "peace and unity." Then this directive tells the Communists that all they have to do to capture China is to make sure there is no peace and unity.

Mr. MORRIS. Did you read the Institute of Pacific Relations report by this subcommittee, which indicated that directive was largely written by John Carter Vincent?

Mr. JUDD. Yes, I read that report. But I don't know. I wouldn't be surprised if that were the case. But, I have never gotten a firm—

what seemed to me a firm confirmation that that directive was all written by him.

Well, that is the kind of thing that happened. They write a strong directive saying we are going to help China, and so on. But, in it, there is a specific condition that makes the help impossible.

Another thing is the leaks to the press. All of you have seen in the press for 6 months repeated stories, especially from certain columnists, that the United States is going to recognize Communist China after the next election. And the United Nations Assembly will meet and admit Communist China to the United Nations. I asked 2 or 3 times down at the State Department, if this is true. It has been denied completely and emphatically by everybody at the top.

Finally, one came out a few weeks ago in a Kiplinger Letter. It said that, at one of these recent conferences with foreign visitors, it was tentatively agreed that this would be done. It would be denied officially, the letter said, but the fact is that the United States is going to recognize Communist China and not veto its entrance into the United Nations.

I called up keymen and said, "Has there been a change?"

They said, "No; we saw the story, too. There is not a word of truth in it."

Now, the newspaper reporters didn't think that up. Somebody in the Department told them that. This is a thing that goes on again and again. Leaks go out from underlings that this is what our policy is going to be: We are going to recognize Communist China. It is not the President's policy. It is not Mr. Dulles' policy. It is not the policy of the Far East Division. Yet, somewhere down in the State Department or in the Pentagon, or the National Security Council, or somewhere, there are people who pass this out.

You go to the press people and they won't reveal their sources. I don't blame them. But this is handed to them as inside dope to pass on to their readers. This is a way in which they shift the thinking of the people toward further appeasement of the Communists.

Mr. MORRIS. Are there other things the committee should look for in trying to determine whether or not there are Communists or Communist sympathizers working in our midst?

Mr. Judd. Let me say this. I, myself, think, in our country, there has been a little too much emphasis on the cloak-and-dagger work of the Communists. We think we have to get somebody who stole documents or wrote something in code to the Soviet Union. I don't think those are the dangerous ones. Those are the little fellows. The really dangerous ones are the ones nobody ever suspected. I remember when John Peurifoy was chairman of Security or head of Security in the Department in 1947 and 1948, and I was on a subcommittee of the Committee on Government Operations in the House that investigated the Department. We got rid of 131 unsuitable people, about half of whom were Communists or Communist suspects, and we didn't have a headline. But he said to me one day:

"Walter, what worries me is how many more there are like Hiss, whom I never even suspected. I used to lunch with Hiss, once in a while. It makes me wonder if the fellow I have my lunch with now is one."

If you go down through their history and watch what they have recommended over the years, you find it turned out to be favorable

to the Soviet Union. I am sure they will never be found to be carrying Communist cards. They would be fools to have meetings in the back end of an alley or a restaurant somewhere. They are clever, and their real danger is their ability, at the lower echelons, to write position papers, which come up to their superiors and become policy papers. Then those policy papers go to the action agencies, like the State Department, the Pentagon, and the National Security Council. If you allow me to write the papers on which my superiors make their decisions, I think I could have had a good deal to say about what my superiors will think.

For example, if the top man comes in and he has the choice between two memoranda on his desk, and both are written by a fellow who is pro-Communist, the man's freedom of decision is not too wide. He has to decide between two positions, both of which are in various degrees pro-Communist, which means, in my book, inimical to the interests of the United States.

Mr. MORRIS. Do you think, then, that committees such as the Internal Security Subcommittee should look into who has been writing, for years, the directives that make the policies?

Mr. JUDD. I think that is where pay dirt is to be found, sir.

Mr. MORRIS. I wonder if you encountered at all in your experiences in China or here on the Hill, the activities of some of the people who passed as Soviet officials in various countries?

For instance, we took, on the day before yesterday, executive session testimony of a man about Sergei Tichvinsky, who was a few days ago accorded semidiplomatic recognition in Japan. Now, a man known in our committee as Yuri Rastvorov, who had, himself, been in Japan and defected in 1954—we learned from him that this man [Tichvinsky] is at least a colonel in the MVD, this man who has now been given semiofficial diplomatic recognition. Looking into the thing, we discovered that Tichvinsky had been 10 years in China and in Peiping and Chungking, posing as a Soviet diplomat.

In addition, we have had testimony that indicates that this man has been recruiting Japanese prisoners of war and Japanese internees who are in the hands of Soviet authorities. He was recruiting them for Soviet agents, who have now been sent back into Japan. As the prisoners of war and the internees have been returned, they have been recruited as Soviet agents by this man.

Now we discover this, as he now arrives as possibly the first Ambassador—it is predicted he may be the first Ambassador from the Soviet Union to Japan. At least now he is the head of a trade mission and he is the first person to be given quasi-judicial recognition.

Would a man like that be able to cause much mischief?

Mr. JUDD. I think, Judge, your question answers itself. The Communists captured, as I recall, about 400,000 Japanese in Manchuria and they apparently soon divided them into 2 groups there. Those they couldn't do anything with they let go home early. Those they thought they could do something with they held onto for 3 or 4 years, and then let them go back to Japan in small groups. There isn't any question but what the Communist movement is growing in Japan, largely through these returnees and through former Communists who had been thrown into jail by the Japanese during the war. One of the first things our State Department people did, when they went over there after the end of the war, was to insist that these people be let

out, in accordance with our democratic way of life. They immediately began propagandizing again.

With the Japanese prisoners who came back from the Russian prisoner-of-war camps, there is a strong body of disciplined, organized Communist workers in Japan. If they have direct guidance and sponsorship, and to some extent protection, through the Soviet Embassy, obviously that is a great menace to our good ally, the Government of Japan.

I would like to say another thing to show how these men work against our policy from within. This is what General Hurley said his directive was:

When President Roosevelt sent me to China in 1944 as an Army officer and personal representative, he specifically directed me to prevent the collapse of the Nationalist Government, to keep the Chinese Nationalist Army in the war, to sustain the leadership of Chiang Kai-shek, and, as far as possible, to unify all of the anti-Japanese forces in China.

He told me that when I was out there in 1944. When he first went out there, he hoped that the Communists would cooperate, because he went through Moscow and Molotov told him that Russia wasn't interested in these Communists in China, so he naturally believed it. But General Hurley soon got wise to the situation, and the thing he couldn't understand was why his own subordinates in the Embassy were advocating the very opposite of the thing he had been sent out by President Roosevelt to do.

The sequel of the story is this: Sometime during the latter part of March 1945, Hurley came back to this country and had a showdown regarding these subordinates. One day he called me up and asked me if I wouldn't come down to see him the following morning. I said "yes," and he told me an office number in the old State Building. I went down, and it was the office of Mr. John Carter Vincent. He sat in Mr. Vincent's office and he told me what the President had instructed him to do. He was quite elated and he said:

We have had a showdown, and the President has reaffirmed this directive to me. My job is to help the Gimo and the Nationalist armies to stay in the ring. My job is not to undermine him and build up the Communists. As a result, all of these folks who have been working against my efforts as the President's personal representative and Ambassador are being sent back to the United States.

He also made a statement to the press along those lines, and went back to China. Within 2 weeks or so, President Roosevelt died.

Now, here is the rest of the story that you can confirm. On the morning of April 13, when President Truman, the new President, came to his office in the White House for the first time as President of the United States, naturally the press was there from a great many papers and so on. Pictures were taken of the new President, the first morning in his office. What was the first piece of business, for President Truman, shown on a memorandum pad on the President's desk, written right on there and readable in the press photo? A man in Washington has that picture now. He had been in naval intelligence and was sensitive to intelligence matters. The minute he saw the picture hanging in the White House, he said to his friend, President Truman, "You must not have a picture like that around, showing, for all to read, a memorandum on the President's desk, no matter whether it is innocuous or not."

What does the memorandum pad say? What was the first piece of business for the new President? "See John Carter Vincent about China."

Who was high enough in the administration—within 2 weeks after Roosevelt had reconfirmed the policy to support the Government of China, to help the Generalissimo win, reestablish order in his country, build up and overcome the great difficulties which then existed—who was high enough to see that the first piece of business for the new President was: "See John Carter Vincent about China"?—John Carter Vincent, whose policy as he himself has avowed in my presence was: "I worked at nothing for years, except to get a coalition between the Communists and the National Government."

Well, Mr. Truman didn't have that whole China background. Obviously, Mr. Vincent and the others got to him—I am not accusing them of communism or anything of the sort. They, however, for whatever reason, believed we should back the Communists and try to get a coalition government. I can't understand their ignorance, if that is what it was, because the documents were so replete with plain evidence as to the Communist purposes. Even Edgar Snow warned again and again that those who think the Chinese Communists are just agrarian reformers are due for a sad awakening. They are not, he said. They are Communists.

I have half a dozen Communist documents here showing the secret memorandums that went out to their members in 1937 to explain why they were making a coalition with the Chinese Government. Whenever they are in trouble, they have to explain to their members why they are doing an apparent about-face. How could smart people down in our departments fail to understand the Communists and their maneuvers?

As a result of that situation, when it came to my attention, I went to see President Truman. This was July 6, 1945. I made some notes before I went to see him. He was just going to Potsdam. I didn't know for sure how much he knew about the situation in Asia. So I said, "I understand that you are going to Potsdam—to try to get a resolution of our difficulties with Russia so we won't have war."

He said, "Nobody can be more interested in avoiding trouble with Russia than I. We got into a conflict with Russia in Eastern Europe over Poland and the satellites. How can we avoid a conflict with Russia in Asia?"

I said, "Why did we get into war with Japan? To prevent China's being made a puppet of Japan. If Japan could get the manpower, resources, bases, and so on, of China, it would be a great threat to our security. Now, having defeated Japan so she can't get control of China, we dare not let anybody else get control of them."

Mr. MORRIS. Mr. Judd, what are you referring to, there?

Mr. JUDD. I am referring to a memorandum of my conversation and some representations I made to Harry Truman.

Mr. MORRIS. Is that a contemporaneous memorandum you have there?

Mr. JUDD. These are notes I made that morning.

Mr. MORRIS. You took notes at that time.

Mr. JUDD. Yes. These are my notes of things I said to him.

Mr. MORRIS. Then your testimony here is not based on your own recollection?

Mr. JUDD. It is based on these notes. I couldn't have recalled all this detail if I hadn't found the notes.

I said to him the two things China needed most were the resources of Manchuria and no serious civil war. Manchuria is where the coal and iron are. That was already gone, because that had been decided at Yalta. Control of Manchuria, with its iron and coal and railroads, had been given to the Soviets at Yalta.

So, we must save the other thing for China. We must prevent a serious civil war. One group said the way to avoid a civil war was to give in to the Communists. I took the opposite position. We must get victory in China, in order to get unity; not unity in order to get victory. The latter was the commie line: Get a coalition government and then go on to get victory over Japan. It was the other way around. Get victory for China first, in order to get unity.

The reasons we should take a position at Potsdam, I said, of unqualified support of the Nationalist Government of China is (1) because Russia herself has officially offered to back Chiang; (2) Chiang has stood by us and we are merely standing by him; (3) we are carrying out the policies of F. D. R., and "I know, Mr. President," I said, "you want to carry out the policies of F. D. R." I had some of these documents that I showed him.

The fourth reason is, I said, our own interest. If we can avoid a civil war in China by backing our ally, and China is united, we will have security in the Pacific. If China is torn and there is Communist victory within, then we will have a mortal enemy across the Pacific.

Our future prospects for peace, trade, and good will depend upon an independent, friendly China.

So, I said our hopes militarily, economically, financially, lie in having a strong Chiang Kai-shek government in control of China.

I said I know some of our people are opposed to this position, because they see China's Government so weakened. I said that I hoped he would back General Hurley, General Wedemeyer, and General Chennault. And then I have a note in here: "Mr. President, now that the war in Europe is ended, in order to lift Asia out of this brawl of dissension, why don't you consider appointing Dwight D. Eisenhower as commander in chief for China? He has just won a magnificent victory in Europe. He commands confidence, and since our public opinion is so divided, send over Dwight D. Eisenhower."

I had forgotten that I made that recommendation until I ran across these notes.

Then, I also urged that President Truman at Potsdam arrange for some of the German ammunition to be sent to China, because the caliber of the rifle that the Chinese armies used was the same caliber as the German rifle. Endless quantities of German ammunition were left after Hitler's surrender. Why not send it to China to use against Japan? I understand that some of it was loaded on ships, but the order was countermanded by Lauchlin Currie, and none of it went to China.

Mr. MORRIS. You say Lauchlin Currie countermanded the order?

Mr. JUDD. I couldn't prove that. That was the account given me at the time.

General Stilwell and General Wedemeyer had trained some 30 divisions of the Generalissimo's troops. They had taken away some of the old semiwornout Chinese rifles, prepared for the German 7.92 ammunition, and gave them our obsolete Enfield and Springfield .30 caliber rifles, about 250,000 of them.

Then, when the war was over and General Wedemeyer and the Generalissimo moved those troops up north to block the Communists from getting into Manchuria, the directive was issued: "Avoid fratricidal war in China."

When the Generalissimo was trying to get control of his country, what surer way of preventing him from getting control than to refuse to allow him to establish order in his own domain? When the Generalissimo insisted on getting control by force if necessary, General Marshall put an embargo on .30 caliber ammunition to stop him. To me, this is one of the most incredible actions in history. We take the Generalissimo's 30 best divisions, train them for and equip them with our rifles, make them dependent on us for ammunition, and then put an embargo on that ammunition.

We thus effectively disarmed his 30 best divisions. For about 10 months, that embargo was on.

Then we wonder how the Communists got into Manchuria first.

If the whole story is told, the American people will just be unable to believe it. It is long, difficult, and complicated, as I believe these diaries are. It is going to be hard to get it simplified down to 1, 2, 3, which is the kind of thing that we like in our headlines.

But I hope, Senator Eastland, you and your committee will go into this thing in great detail. I know a lot of it won't seem to be productive. But there is a head and tail to it all. There is a cause and consequence to every step through this long, sordid history, whereby the United States stood at the peak of its power, influence, prestige, even affection in Asia only 11 years ago, and today is at its all-time low.

We came down, and the Communists went up. It couldn't have been done without a great deal of skillful planning.

In a report to my own committee on November 14, 1947, after I had been on another trip to China and examined this thing, I discussed the threefold plan that the Communists had: One, to destroy the Generalissimo at home by tearing up the railroads, wrecking the economy, making it impossible to restore economic processes, and so on;

Two, to destroy him abroad by saying—they had six words for him and his government—inept, incompetent, inefficient, undemocratic, corrupt, reactionary. By repeating these six things often enough—inept, incompetent, inefficient, undemocratic, corrupt, and reactionary—you can close off all other mental processes.

The third thing was to build up the Communists themselves, as democratic reformers. I said in this report:

The propaganda, as you know, was largely led by about 20 or 30 writers and lecturers and commentators in America, and by some men who became Far East advisers to our State Department or experts on the staffs of organizations supposedly dedicated to enlightening the American public on Asiatic affairs or foreign policy.

There were some of the group in what has become widely known as the Red cell in the State Department—the Far Eastern Office. It has been openly said that some of these experts, both in and out of the Government, are members of the Communist Party, although I have no personal knowledge of that. But certainly, they have consistently followed the party line with respect to the Chinese Communists.

One of them openly boasted that, while they had not succeeded in all they wanted, at least they had gotten rid of Grew, Hurley, and Hornbeck, who were the three in the State Department who knew the facts about the Communists' wiles, and who tried to carry out Roosevelt's policy of supporting the Central Government of China.

On the next page I said:

I do not know when, if ever before in history, some 30 or 40 persons in and out of the Government, have been able to lose a great victory so almost completely as this handful of Communists, fellow travelers, and misguided liberals in America has succeeded in doing with respect to the victory over Japan which 4 million brave Americans won at such a cost in blood and sacrifice. I do not like to make so strong a statement, but I do not see how anyone can look at the facts and come to any other conclusion.

It was plain as day in the fall of 1947 that we were going to lose the victory if we didn't change our politics. But we didn't succeed in changing them.

Mr. MORRIS. You mention that report. When did you make that report?

Mr. Judd. November 14, 1947. It was in our committee hearings but there were so many questions asked me that, since it was just as true 6 months later—and is just as true 9 years later—I had it reprinted and sent out as a pamphlet the following June 1948.

I am just an ordinary workingman Congressman. I could find out what the Communists were up to. I can't understand how the great experts can be so misguided and misled. I cannot believe it is wholly ignorance.

Mr. MORRIS. You think we have the problem with us today?

Mr. Judd. Well, you see it on every hand. Look, here is last night's David Lawrence article. He is quoting from a speech by Allen Dulles of the CIA, in which Mr. Dulles is warning about the dangers of some of our allies' going into coalitions with Communists:

Today the danger of parliamentary compromises with the Communists, even in Europe, is not to be ignored. In Asia, this threat is even greater, because it is generally less well understood.

Here is the head of our CIA warning against coalitions with the Communists. Yet, the State Department, with the exception of a few at the top, was insisting on coalition with the Communists then. There are some, even now, advocating, not parliamentary coalition with the Communists, but executive branch—War Department—compromises, if you will.

Mr. MORRIS. With respect to your notes, that you took at the time of your conversation with President Truman—would you offer those for our record, and we will see that you get the original back?

Mr. Judd. Well, they are awfully rough.

Mr. MORRIS. If so, we will put it in the record and return the original back to you.

Mr. Judd. All right.

(The document referred to was marked "Exhibit No. 314" and a copy may be found in subcommittee files.)

Mr. MORRIS. Now, Congressman, what did President Truman say after you made those recommendations?

Mr. JUDD. Well, I have always hesitated to quote what Presidents say. I think it is their business to make statements to the press. I will say this, though, because there is no secret about this. He said:

"Don't worry about the war with Japan; Russia is going to enter the war. She promised at Yalta that she would enter the war within 3 months after the surrender of Hitler. So she is coming into the war."

This is not in my notes, but I said, "Mr. President, I am sorry to hear that, because if she comes into the war in Asia, she will insist—perhaps contribute a little tiny bit at the end of the war—and then insist on having a major say in the peace conditions. I wish, myself, she wouldn't come in, because the Japanese are practically licked already, and we don't need her help."

But he was greatly elated, although it hadn't been announced yet that Russia was coming in. He made some remarks about the Poles and so on, which I don't think I am entitled to repeat.

Chairman EASTLAND. Mr. Morris, has Tichvinsky been in the United States?

Mr. MORRIS. He was an expert at the United Nations General Assembly on a special mission, Soviet Union, on December 16, 1950—that is the autumn session of the General Assembly. He was here again on October 13 and December 9, 1952. That is again in the autumn 1952 meetings of the General Assembly.

He was here again on February 23 to March 27, the year 1953. That was the spring meeting of the General Assembly. He was always here in the position of an expert with the Soviet mission.

Mr. MITCHELL, I wonder if you will identify for me the 10 documents we have gone over—Congressman Judd, you have gone over some of the Morgenthau excerpts with the staff of the committee; have you not?

Mr. JUDD. Yes, sir.

Chairman EASTLAND. You say excerpts.

Mr. MORRIS. Suppose I let Mr. Mitchell describe them?

Mr. MITCHELL. These are 12 documents, one of which is the report by Mr. Friedman of the speech made by Congressman Judd in Chungking. The other documents seem to explain why so much interest was taken in his speech by Mr. Friedman and by other people—Mr. White, and so on.

Mr. MORRIS. Describe each document.

Mr. MITCHELL. The first document comes from book 796, page 242. It is dated November 18, 1944. It is a memorandum by a Mr. Service, which was forwarded by Solomon Adler, who is the Treasury representative in Chungking, to Harry Dexter White. It reports an interview by Service with Mao Tse-tung, the Communist leader, in which Mao said the hope of the Communists is that the influence of the United States will be exercised to prevent Chiang Kai-shek from attacking them.

The next document is from book 793, page 142, dated November 10, 1944, which is another memorandum by Service, of a conversation with Mao.

Chairman EASTLAND. They are complete documents, and not excerpts?

Mr. MITCHELL. These are complete documents.

Chairman EASTLAND. All right, admit them into the record.

Mr. MORRIS. Do you want them described at this time? They speak for themselves.

Chairman EASTLAND. They speak for themselves.

(The complete documents were marked "Exhibits 315 to 328" and appear at the conclusion of Mr. Judd's testimony.)

Mr. MORRIS. Mr. Chairman, I would like also to formally put into the record the executive session testimony of Mr. Rastvorov. He has not completed his testimony, but for security reasons we don't bring him back for public session each time. Twice he has appeared publicly. We have agreed not to present him in public in such a way that his present identity might be known. For that reason, may that go into the record?

Chairman EASTLAND. Yes.

(The testimony referred to appears at pp. 795-800, p. 14, of the series of hearings on Scope of Soviet Activities in the United States.)

Chairman EASTLAND. Proceed.

Mr. MORRIS. Is there anything else, Congressman Judd, which you can tell this committee, based on your study of these documents which Mr. Mitchell has just described, and which have now been ordered into the record by the chairman here?

Mr. JUDD. No, I didn't study them. He just sort of went over them the way he did here. I am not in a position—I didn't get a chance to read them carefully. Perhaps I should have before I testified.

Mr. MORRIS. The ones you have seen reflected, did they not, the situation you found in China when you were there?

Mr. JUDD. Yes. Obviously, they were disturbed at what I had, in all innocence, said in Chungking. I had gone out to find out (1) what the situation was there, and (2) what I could do as one citizen to strengthen our ally, which was in accordance with official American policy. I was surprised and disturbed that they were so disturbed at my taking this position. They had apparently thought they had it about fixed up to shift our aid to the Communists, and I, perhaps to some extent, hindered or put a crimp in that operation.

Mr. MORRIS. Congressman, the Friedman letter reflected the alarm that some of these people we have been talking about experienced when they realized that you were there talking as an official of the United States Government, talking directly to Chiang Kai-shek and expressing a view directly opposite to the one they were taking at that time.

Mr. JUDD. Yes, the views he is talking about were not spoken primarily to the Generalissimo. They were at this public meeting of the American Chinese Cultural Society where there were many high Chinese officials, as well as the newspaper people.

Mr. MORRIS. All these documents which we have put into the record today on events which took place while Mr. Judd was in China?

Mr. MITCHELL. They are either the period Mr. Judd was in China or within 2 weeks after he left.

Mr. MORRIS. I have no more questions.

I would like to sum up, if I might, the things you think we should look for in connection with determination of people who may be carrying on activities which may not be in the interest of the United States.

I think in executive session you went through four points we should look for. I think if we could have them again——

Mr. JUDD. I said you ought to watch for cases, first, where Government officials consistently give false information to their superiors and, second, where they leak to the press information supposed to be the inside dope on American policy, but which is contrary to the announced official policies of the responsible heads of agencies in our Government.

Third is their delay in carrying out directives or policies established by the Congress. If they don't approve, feet are dragged and the goods don't get out or the action isn't put into effect.

Chairman EASTLAND. Mr. Judd, where are those leaks coming from?

Mr. JUDD. I don't know, sir. I have tried to find out from some of my newspaper friends. They come from State and from the Pentagon. Those are the two common sources.

Chairman EASTLAND. Then you think some of these people that are pro-Communist are still in the State Department, and still in the Pentagon?

Mr. JUDD. Why, yes. I don't mean pro-Communist in the sense that they are in the party, but they advocate policies that work out to the good of the party. On the law of averages, a mere moron, once in a while would make a decision that would be favorable to the United States. When policies are advocated by any group which consistently work out to the Communist advantage, that couldn't be happenstance.

Chairman EASTLAND. Do I understand that you think that the recommendations of these individuals have influence with the real policy-makers in the State Department and in the Pentagon?

Mr. JUDD. Oh, there is no slightest doubt of it. For example, if I may use an illustration, I am told, because I have asked all kinds of questions about it down there, that here is the Assistant Secretary for a given area, Europe or the Middle East or the Far East. He is strongly anti-Communist, and in every instance he takes a position that will build up the interests of the United States. He is the man who carries out policies and so on. We are inclined to assume that, because he is the Assistant Secretary, he is the man who advises the Secretary on what the policies should be. But when you investigate, you find that isn't the way it happens. It is the planning council—whatever they call it.

Mr. MORRIS. Policy Planning Board, isn't it?

Mr. JUDD. Policy Planning Board. They have on their Policy Planning Board a man, for example, for the Far East, one for Latin America, one for the Middle East, and so on. They prepare the "position" papers. Those are the ones that go up to the higher levels, where the policy is determined. The men we look to, the men you confirm as Assistant Secretaries, carry out the policies. But I find they are not always the most influential ones in making the policies. It is these position papers that come up from the Policy Planning Board.

Chairman EASTLAND. You think today that those officials are subject to pro-Communist influence?

Mr. JUDD. You mean the higher officials?

Chairman EASTLAND. Yes.

Mr. JUDD. Yes, I do. I don't see how they can come to some of the conclusions they do if that weren't the case.

Mr. MORRIS. You think, Congressman, that influencing our policy to our disadvantage would come from the bottom and not from the top?

Mr. JUDD. Oh, I am sure it is not from the top. You talk to some of those people at the top and they are distressed, themselves, at the miscarriage of orders that are supposed to be against the Communists and yet it doesn't work out.

As John Peurifoy said, some of these people are not on our side. Who are the people?

Chairman EASTLAND. What is the trouble? Can't they fire them?

Mr. JUDD. Well, it seems to me they could. It seems they could, if there was the will to be really tough in policing an organization and tightening it up. They could go back to the papers and find out what a man's position consistently has been. Then, if he has been consistently advocating over the years policies which events have proven wrong, he ought to be fired, not as a Communist, but as a fellow who is consistently wrong. If I have a doctor who takes care of my father and he dies, who takes care of my mother and she dies, who takes care of my wife and she dies, and then I get sick, I am going to fire him, not as a Communist, but because he is just not a good enough doctor.

I don't think we have to call them subversive. I think a lot of them are not subversive. They are intellectuals, and communism appeals to the theoretical mind—one leads to two, two leads to three, and three leads to one in a neat wrapped-up way.

Chairman EASTLAND. But you do think they are pro-Communist?

Mr. JUDD. I think the things they advocate consistently work out to the interest of the Communists.

Mr. MORRIS. Have you finished the four points?

Mr. JUDD. The fourth one was in writing their position papers and directives. They start out with a big smashing, strong statement, that they know their Chief will agree with, and then in the third or fourth paragraph, it is hedged around with however's and but's until it is all watered down. After the agency approves, it goes up, say, to the National Security Council or other top boards which have to take this policy paper and work out a directive. They don't go by the big, strong statement in the first paragraph or two. They go by the small print as it is spelled out in the later paragraphs.

So, the policy that is ultimately carried out is not the one that is foreshadowed, apparently, in the strong, anti-Communist, firm statement in the first paragraph. It is the weaker one described down in the modified paragraphs. It is reflected, then, in the writing of the directive, based on the policy which has been watered down.

I think it is in the preparing of these papers and directives that the damage is done, and the influencing of the minds of the people above.

Chairman EASTLAND. Let me ask you this question. Do you believe that any government ever had a weaker department than our present State Department?

Mr. JUDD. No, I think the State Department is a good deal better than it was. But I still think it has a long way to go. I will probably get in trouble, but I have said this to the Secretary personally, so there is no reason not to say it here.

A man down in the Department told me, just about inauguration day in 1953, that the old cliques were saying:

"Well, we were kind of worried when there was to be a change down here, but we have things under control now."

I said, "What do you mean?"

"Well, they say they are going to give Mr. Dulles the Jimmy Byrnes treatment."

"What is that," I asked.

"Keep the Secretary of State out of the country."

He said, "Look at Jimmy Byrnes. He came in as Secretary and they sent him to Potsdam and Moscow and then sent Byrnes and Connally and Vandenberg to Paris for 6 months."

They were over there right while the postwar pattern of appeasement was being established. They kept them out of the country. This man was not one of them.

Chairman EASTLAND. We still have that policy of appeasement, don't we?

Mr. JUDD. I beg your pardon?

Chairman EASTLAND. As I understand your testimony, we still do have that pattern of appeasement.

Mr. JUDD. In the lower echelons. Not at the top.

Chairman EASTLAND. But you say they influence the men at the top. They are being influenced by pro-Communists.

Mr. JUDD. I think so.

Mr. MORRIS. I have no more questions of this witness, Mr. Chairman.

Chairman EASTLAND. We certainly thank you, Mr. Judd. You have been a very fine witness.

Mr. JUDD. A person in his right mind certainly wouldn't want to get into this kind of disagreeable situation, but I came because I wanted to help if I could. I was a soldier once, and a soldier doesn't like to go into battle, but it is his duty. And I thought it was my duty to come today.

The excepted documents from the Morgenthau Diaries appear below:

#### EXHIBIT No. 315

[P. 242, vol. 796]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,  
November 18, 1944.

To: Secretary Morgenthau.

1. I feel that the attached memorandum recording an interview between Mr. Service of the State Department and the leader of the Chinese Communists is of sufficient importance to warrant being called to your attention. The Chinese Communists believe that civil war is inevitable unless we actively throw our weight against it. *They now regard the American attitude toward them as the decisive factor in the general determination of their policy* and appear to be anxious to cooperate with us. This fact gains added importance with the approaching end of the war in Europe and the possibility of a more active Russian policy in the Far East.

2. In the normal course of events, this memorandum would go to the President through the State or War Department. Adler asked Service if it had been submitted to the President and Service indicated that it hadn't.

H. D. W.

Mr. White, Branch 2058, Room 214½

[Pp. 243, 244]

TREASURY DEPARTMENT,  
November 18, 1944.

#### INTEROFFICE COMMUNICATION

To: Mr. White.

From: Mr. Adler.

Subject: Digest of Interview with Mao Tse-tung.

1. *Kuomintang-Communist relations are the key problem of China.* Civil war has been prevented by the following factors: the Japanese attack on China, the

pressure of foreign opinion, Communist strength, the will of the Chinese people, and the internal weakness of the Kuomintang. With the approach of the end of the war a shift in these forces is taking place which increases the possibility of civil war which the Communists abhor. The Kuomintang is already visibly preparing pretexts for civil war and to use puppet troops against the Communists. The hope for preventing civil war therefore rests to a very great extent on the influence of foreign countries. *Among these by far the most important is the United States*, whose growing power in China and in the Far East can be decisive. The Communists now regard the American attitude to them as the decisive factor in the general determination of their policy.

2. Mao, therefore, raised three questions about American policy toward China.

(a) The first question, namely whether there was a chance of an American reversion to isolationism with a resulting lack of interest in China, has already been answered by the reelection of the President.

(b) The second question was whether the American Government is interested in democracy in China. Mao pointed out that the present government in China has no legal status and is in no way representative of the people of China. He stated it was essential that the Government should broaden its base and that this should be done by the immediate convention of a provisional National Congress, one-half of the members of which would be Kuomintang, the others to consist of representatives of all the other parties. The government would be directly responsible to this Congress. Mao wished to know if the American Government was willing to make a proposal for and support the calling of such a Congress.

(c) The third question was the attitude and policy of the American Government toward the Chinese Communist party, whether we recognized it as an active fighting force against Japan and as an influence for democracy in China and whether there was any chance of American support for the Chinese Communists and what the American attitude would be if there was a civil war in China. He asked if American policy was to try to induce the Kuomintang to reform itself. *The Communists wished to risk no conflict with the United States*. But if the Kuomintang does not reform itself, will the United States continue to recognize and support it?

3. *The Generalissimo is in a position where he must listen to the United States*. He is stubborn, but fundamentally he is a gangster and the only way to handle him is to be hardboiled. You can be friendly with him only on your own terms. There is no longer any need to placate Chiang. The presence of American soldiers in China is beneficial. It helps to prevent civil war and acts as a liberalizing influence, for instance, in Kunning. *The Kuomintang, therefore, fears an American landing in China only second to Russian participation in the Far Eastern war*.

4. The Communists feel that the Americans must land in China. If they do not, the Kuomintang will continue as the Government, without being able to be the Government. If there is a landing, the Americans will have to cooperate with both the Kuomintang and the Communists, as the Communists are the inner ring and the Kuomintang is further back. In this case it is important that the Communists and the Kuomintang be allowed to work in separate sectors, as the Kuomintang is too afraid to work with the Communists and will try to checkmate them.

5. *The Communists do not expect Russian help* nor are they certain of Russian participation in the war in the Far East. Mao thus indicated that the Chinese Communists *would prefer* to have an American rather than a Russian orientation. Cooperation between America and the Chinese Communists would be beneficial and satisfactory to all concerned. Mao said that the Communists have considered changing their name and that if people knew them they would not be frightened by the name, as their policies are merely liberal. Their rent reduction is gradual, their limit on interest is ten percent a year, and they support the industrialization of China by free enterprise with the aid of foreign capital. The United States would find the Communists more cooperative than the Kuomintang, as the Communists are not afraid of American democratic influence, they would welcome it. They wish to raise the standards of living of the people rather than to build up armaments.

## INTERVIEW WITH MAO TSE-TUNG

AUGUST 23, 1944.

(After a short general conversation Mao said that he would like to talk about Kuomintang-Communist relations. The following is the gist of his remarks.)

The relationship between the Kuomintang and the Communist Party is the key to the problem of China. In the first stage, from 1922 to 1927, there was cooperation. This made possible the success of the Northern Expedition and the rise to power of the Kuomintang. But as soon as the Kuomintang got that power it sought to monopolize it; it turned against and tried to exterminate us. The result was the second stage—the ten years of civil war from 1927 to 1937. The third stage, a return to cooperation, was impelled by the imminence of the Japanese invasion. It has continued precariously up to the present.

This cooperation of the third stage was not entered into gladly or willingly by the Kuomintang. Its acceptance by the KMT has *never* been sincere or whole-hearted. It was forced on the KMT by five factors:

1. The Japanese attack.
2. The pressure of foreign opinion.
3. The enduring strength of the Communists—exploited at Sian.
4. The will of the people of China—to resist Japan.
5. The internal weakness of the KMT—which made it unable to defeat us.

The end of the war (and even its approaching end) will bring a shift in these forces.

The defeat of *Japan* will eliminate the most powerful and positive of these factors.

The *Communists* are stronger than before. In this way it can be said that their influence for unity and against civil war is greater. But as long as the KMT is under its present type of leadership this greater Communist strength makes the KMT more determined on Communist elimination. This can work only up to a certain point: if the Communists are too strong, the KMT will not dare to attack them. But the KMT leaders are so grasping for power that they may take long chances.

The *people* of China are still inarticulate and politically repressed. They are kept so by the KMT. The liberals, students, intellectuals, publicists, newspaper interests, Minor Parties, provincial groups, and modern industrialists (who have been disillusioned and see no future for themselves in Kuomintang bureaucratic industrialization) are numerous. But they are disorganized, disunited, and without power. Over them Chiang holds the bayonets and the secret police.

The *Kuomintang* is an amorphous body of no definite character or program. The liberal groups within it have no strong leader, no rallying point, and no aggressive platform. If they did have these they would have no way, under present circumstances, of reaching the people. The *controlling* leaders of the Kuomintang, though divided into jealous cliques, are all anti-Communist and anti-democratic. They are united by their selfish determination to perpetuate their own power.

Considering these factors alone it seems inevitable, if the country drifts along under the present leadership, that there will be Kuomintang provoked civil war.

We Communists know civil war from bitter experience. We know that it will mean long years of ruin and chaos for China. China's unity, her stabilizing influence in the Far East, and her economic development will all be delayed. Not only the Chinese but also all nations having interests in the Far East will be affected. *China will become a major international problem.* This vitally concerns the United States.

One thing certain is that we Communists dread civil war. We abhor it. We will not start it. We will do our best to avoid it—even though we know that as things now are (provided that the KMT does not receive foreign help) we would eventually win. But the Communists are *of* the people. The people's interests are our interests. *The people* will not submit for long to the despotic Fascism which is now apparent in Chungking and Sian, and which is foreshadowed even more menacingly in books like Chiang's "China's Destiny." *If the people fight, the Communists must fight along with them.*

The hope for preventing civil war in China therefore rests to a very great extent—much more than ever before on the influence of foreign countries. *Among these by far the most important is the United States.* Its growing power

in China and in the Far East is already so great that it can be decisive. The Koumintang in its situation today *must* heed the United States.

American policy in China therefore becomes not merely a matter of concern to Americans alone: it is also a question of the most vital interest to the democratic people of China. The Chinese people, accordingly, are interested in three general questions.

*First*, is there a chance of an American swing back toward isolationism and a resultant lack of interest in China? Are Americans closing their eyes to foreign problems and let China "stew in her own juice"? We Communists feel that this problem will not arise if Roosevelt is reelected.

(This and other questions about the United States were addressed directly to me. I therefore made it clear, in the most explicit terms, that I had no official authority and that my replies were *only* my purely private and completely unofficial opinions.

(On the above points, I mentioned America's long and special interest in China; the fact that we would have no internal reconstruction problem as a result of war destruction; that on the contrary our greatly expanded economy and our more international outlook would impel us to seek trade and investment beyond our borders that it was therefore unlikely that we would become isolationist or unconcerned about China; and that I doubted whether administration of the country by either Republicans or Democrats would fundamentally affect our China policy.)

*Second*, is the American Government really interested in democracy—in its world future? Does it, for instance, consider democracy in China—one-fourth of the world's population—important? Does it want to have the government of China really representative of the people of China? Is it concerned that the present government of China, which it recognizes, has no legal status by any law and is in *no way representative of the people of China*? Chiang Kai-shek was elected President by only 90 members of a single political party, the Kuomintang, who themselves cannot validly claim to represent even the limited membership of that party. Even Hitler has a better claim to democratic power. He was selected by the people. And he has a Reichstag. Does the United States realize the obvious fact that the present Kuomintang has lost the confidence and support of the Chinese masses? The important question, however, is not whether the American Government realizes this fact, but whether it is willing to try to improve the situation by helping to bring about democracy in China.

(I referred to the numerous official American statements regarding unity in China and our general hope for democratic development in all countries. I mentioned the apparent trend of at least an important part of American opinion as shown in recent critical articles in the American press.)

It is obvious that the Kuomintang must reform itself and reorganize its government. On its present basis it cannot hope to fight an effective war. And even if the war is won for it by the United States, subsequent chaos is certain.

The government must broaden its base to take in all important groups of the people. We do not call for full and immediate representative democracy: it would be impractical. And, under Kuomintang sponsorship and control, it would be an empty fraud. But what can and should be done—at once—is to convene a provisional (or transitional) National Congress. To this *all* groups should be invited to send delegates. These delegates must not be selected and appointed by the Koumintang, as in the past. They must be genuine representatives—the best-qualified leaders. They should include the Communist Party, all Minor Parties, the intellectual groups, newspaper interests, students, professional groups, central organizations of cooperative societies, labor, and other mass organizations.

A workable compromise for the distribution of strength might be that the Kuomintang would have one-half of the members, all others together the other half. It would have to be agreed beforehand, for reasons of practical politics, that the Generalissimo would be confirmed as Temporary President.

This Provisional Congress must have full power to reorganize the Government and make new laws—to remain in effect until the passage of the Constitution. The Government should be directly responsible to the Congress. Its functions and powers might be somewhat like those of the British House of Commons.

The Provisional Congress would also have full charge of the preparations for full democracy and Constitutionalism. It would supervise the elections and then convene the National Congress. It would then turn over its powers and pass out of existence.

Is the American Government willing to use its influence to force the Kuomintang to carry out such a proposal? Is the American Government willing to make the proposal and actively support it?

(Chairman Mao made the suggestion that this matter was of such importance that it would warrant my making a trip to Chungking to present it to the Ambassador. I said that the Ambassador would be fully informed. I also suggested that we had already heard this general proposal from other quarters in Chungking.)

(Subsequently on August 26 I learned in a conversation with CHOU En-lai that the Politbureau of the Communist Party was considering the making of this proposal to the Kuomintang. They would base it on the Kuomintang's refusal to discuss the Communist demands for democracy in their present negotiations on the ground that they are "too abstract.")

*Third*, what is the attitude and policy of the American Government toward the Chinese Communist Party? Does it recognize the Communist Party as an active fighting force against Japan? Does it recognize the Communists as an influence for democracy in China? Is there any chance of American support of the Chinese Communist Party? What will be the American attitude—toward the Kuomintang and toward the Communists—if there is a civil war in China? What is being done to ensure that the Kuomintang will not use its new American arms to fight a civil war?

(These questions, especially the points raised in the second and third, formed the framework of our further conversation. I returned to a number of points for further amplification and discussion.)

(Regarding the question of "support" of the Communist Party, I pointed out that the question was obscure and, in any case, premature, inasmuch as the Communists themselves publicly supported the Central Government and Chiang Kai-shek.)

We Communists accepted KMT terms in 1936-37 to form the United Front because the foreign menace of Japan threatened the country. We are, first of all, Chinese. The 10 years of inconclusive, mutually destructive civil war had to be stopped in order to fight Japan. Even though we had not started the civil war, we took the lead in stopping it. Also, the foreign countries recognized the KMT and Chiang; they did not support us. But the United Front was not all one-sided: The KMT also promised political reforms—which they have not carried out.

Our support of Chiang does not mean support of despotism: we support him to fight Japan.

We could not raise this question of recognition before. In a formal sense it is still premature. We only ask now that American policy try to induce the Kuomintang to reform itself. This would be a first stage. It may be the only one necessary: if it is successful there will be no threat of civil war.

But suppose that the KMT does not reform. Then there must be a second stage of American policy. Then this question of American policy toward the Communists must be raised. We can risk no conflict with the United States.

We can ignore the question of the supply of American arms now which can be used by the KMT in a future civil war. But must we expect a repetition of past history. In the early days of the Republic, the Powers recognized *only* Peking—long after it was apparent that the only government that could claim to represent the people of China was that in Canton. Nanking was not recognized until after the success and completion of the Northern Expedition. Now the internal situation in China is changing. The lines are not yet clearly drawn. But a somewhat similar situation may develop. Will the United States continue to give recognition and support to a government that in effectiveness and lack of popular support can only be compared to the old Peking Government?

(I suggested the diplomatic impossibility of withdrawing recognition from a government that had not committed a directly unfriendly act, the obvious undesirability of working behind a recognized government to support an opposition party, and finally the delicacy of the whole problem of interference in the domestic affairs of another country.)

America has intervened in every country where her troops and supplies have gone. This intervention may not have been intended and may not have been direct. But it has been nonetheless real—merely by the presence of that American influence. For America to insist that arms be given to all forces who fight Japan, which will include the Communists, is not interference. For America to give arms only to the *Kuomintang* will in its effect be interference because it will enable the Kuomintang to continue to oppose the will of the people of China.

"Interference" (Mao noted his objection to the term because of its having no meaning in this situation) to further the *true interests of the people of China* is not interference. It will be welcomed by the great mass of the people of China because they want democracy. Only the Kuomintang is against it.

We do not ask the stopping of all aid to the KMT forces. The effect would not be good on the war. The KMT would collapse and the American landing in China will be more difficult.

(CHOU En-lai in a subsequent conversation developed the following themes along related lines: (1) The giving of American arms only to the KMT is *sure to mean civil war*; (2) We must not ignore the possibility that Japan may try to end the war by a "surrender" to Chiang Kai-shek. This will be a trick on the other Allies and will in effect be a compromise based on Japan's desire to keep a weak Kuomintang rather than a strong, unified and democratic government in China; (3) The *only* way to be sure of decisively winning the war in China and avoiding civil war is to give arms to both Kuomintang and Communists.

(I raised the question of *how* American influence could be exerted effectively, expressing skepticism about "dictation" to Chiang. Mao vigorously rejected my suggestion.)

Chiang is in a position where he *must* listen to the United States. Look at what happened in Honan, is happening now in Hunan, and shows every sign of happening in Kwangsi! Perhaps it will be Yunnan next. Look at the economic situation! Chiang is in a corner.

Chiang is stubborn. But fundamentally he is a gangster. That fact must be understood in order to deal with him. We have had to learn it by experience. The only way to handle him is to be hardboiled. You must not give way to his threats and bullying. Do not let him think you are afraid: then he will press his advantage. The United States has handled Chiang very badly. They have let him get away with blackmail—for instance, talk of being unable to keep up resistance, of having to make peace, his tactics in getting the 500 million dollar loan, and now Kung's mission to the U. S. and the plea for cloth. Cloth! Are we or are we not fighting the Japanese! Is cloth more important than bullets? We had no cotton here in the Border region and the KMT blockade kept us from getting any from the parts of China that did have it. But we got busy and soon we are going to be self-sufficient. It would be 100 times easier for the KMT, and if they were a government that had an economic policy they would have done it themselves.

With Chiang you can be friendly only on your own terms. He must give in to constant, strong, and unified pressure. Never relax on your objectives: keep hammering at him.

The position of the United States now is entirely different from what it was just after Pearl Harbor. There is no longer any need or any reason to cultivate, baby, or placate Chiang. The United States *can* tell Chiang what he should do—in the interest of the war. American help to Chiang can be made conditional on his meeting American desires. Another way for American influence to be exerted is for Americans to talk American ideals. Every American official meeting any Chinese official, in China or in the United States, can talk democracy. Visits like Wallace's give good opportunities: there should be more of them. Kung's presence in the United States should not be wasted.

Every American soldier in China should be a walking and talking advertisement for democracy. He ought to talk it to every Chinese he meets. American officers ought to talk it to Chinese officers. After all, we Chinese consider you Americans the ideal of democracy.

(I suggested that the use of our Army as a political propaganda force was alien—and that we had nothing corresponding to the Communist Political Department to indoctrinate the troops and direct such work.)

But even if your American soldiers do not actively propagandize, their mere presence and contact with Chinese has a good effect. We welcome them in China for this reason. The Kuomintang does not. It wants to segregate them and keep them from knowing what conditions really are. How many American observers do you have now in the front lines? We are happy to take your men anywhere. The KMT is worried about the effect of a lot of Americans in China. *They fear an American landing only second to their fear of Russian participation.*

The presence of Americans is good in another negative way. If Americans are scattered widely they will have a restraining effect on the Kuomintang. It

will be more difficult for the KMT to start trouble. An example is Kunming. It has become a center of liberal thought and student freedom because the KMT doesn't dare to arrest and throw the students into concentration camps under the eyes of so many Americans. Compare this with Sian, where Americans are very few and the Secret Police unrestrained.

Criticism of the Kuomintang in American periodicals is good. Its effect may not be immediately apparent. Sometimes it may even seem temporarily to have a bad reaction. But if it is fair (the KMT will know if it is) it causes the KMT to hesitate and think—because they need American support.

Finally any contact you Americans have with us Communists is good. Of course we are glad to have the Observer Section here because it will help to beat Japan. But there is no use in pretending that—up to now at least—the chief importance of your coming is its political effect on the Kuomintang.

(I noted his emphasis on American landing in China and suggested that the war might be won in other ways and a landing not necessary.)

We think the Americans must land in China. It depends, of course on Japanese strength and the developments of the war. But the main Japanese strength is in the Yangtze valley and North China—not to speak of Manchuria.

If the Americans do not land in China, it will be most unfortunate for China. The Kuomintang will continue as the government—without being able to *be* the government.

If there is a landing, *there will have to be American cooperation with both Chinese forces*—KMT and Communist. Our forces *now* surround Hankow, Shanghai, Nanking and other large cities. We are the *inner* ring: The KMT is further back.

If there is to be this cooperation with both Communist and KMT forces, it is important that we be allowed to work in separate sectors. The KMT is too afraid of us to work *with* us. Their only concern will be to checkmate us. When we are in separate sectors, the U. S. Army can see the difference: That we *have* popular support and *can* fight.

(I questioned whether open civil war was, as he had suggested, inevitable if the KMT was not restrained or induced to reform.)

We can say that civil war is "inevitable but not quite certain." Subjectively, the present KMT leaders are determined on the elimination of the Communists. They are afraid of us just as, and for the same reasons as, they are afraid of the people. Objectively, there are factors—the five mentioned at the beginning of the talk—which restrain the KMT. The strongest of these—the Japanese will be out of the picture. Another—strong because outside and independent of the KMT—is foreign opinion. But it is now unpredictable. The KMT still hopes that foreign influence may be on its side.

The KMT is already busy preparing pretexts for civil war. The more you know of us and conditions in our areas, the less value these pretexts will have.

So the KMT may resort to indirect methods of attack. It will be hard to define or set a line to its aggression.

But if the KMT undoes the progress that has been accomplished in our areas, if they take away the new democratic rights of the people, the people will resist and will demand our help.

Another line of KMT action will be through the puppets. The puppets will turn back to the KMT—claiming to have been "patriotic" all the time. The KMT will then use the puppets to hold the cities and areas from which the Japanese withdraw. They will incite the puppets to attack us and to create friction.

(CHOU En-lai carries this line further by suggesting that this may be a part of the possible fraudulent Japanese surrender to Chiang: The Japanese will turn over their arms to the puppets (or the KMT) on the condition that the Communists will be liquidated.

(This may seem at first a little far-fetched. The only possible comment is that the forces involved in this situation are so complicated and their hatreds so intense, that almost anything is possible.)

The fact is clear, even to the Kuomintang, that China's political tendency is toward us. We hold to the Manifesto of the First Kuomintang Congress. This is a truly great and democratic document. Sun Yat-sen was no Communist. The Manifesto is still valid. It will not quickly pass out of date. We will hold to it even if the KMT should collapse because its general policies are good and suited to China. Everything we have done, every article of our program, is found in that document.

Of course, we do not pretend that we are perfect. We still face problems of bureaucracy and corruption. But we *do* face them. And we *are* beating them.

We welcome observation and criticism—by Americans, by the KMT or by anyone else. We are constantly criticizing ourselves and revising our policies toward greater efficiency and effectiveness.

Our experience proves that the Chinese people understand democracy and want it. It does not take long experience or education or "tutelage". The Chinese peasant is not stupid; he is shrewd and like everyone else, concerned over his rights and interests. You can see the difference in our areas—the people are alive, interested, friendly. They have a human outlet. They are free from deadening repression.

(I queried his emphasis on the importance of the United States and his neglect to consider Russia.)

Soviet participation either in the Far Eastern War or in China's post-war reconstruction depends entirely on the circumstances of the Soviet Union. The Russians have suffered greatly in the war and will have their hands full with their own job of rebuilding. We do not expect Russian help.

Furthermore, the KMT because of its anti-Communist phobia is anti-Russian. Therefore KMT-Soviet cooperation is impossible. And for us to seek it would only make the situation in China worse. China is dis-unified enough already! In any case Soviet help is not likely even if the KMT wanted it.

But Russia will not oppose American interests in China if they are constructive and democratic. There will be no possible point of conflict. Russia only wants a friendly and democratic China. Cooperation between America and the Chinese Communist Party will be beneficial and satisfactory to all concerned.

(I jokingly remarked that the name "Communist" might not be reassuring to some American businessmen. Mao laughed and said that they had thought of changing their name but that if people knew them they would not be frightened.)

The policies of the Chinese Communist Party are merely liberal. Our rent reduction is from the old 80-70-60% down to the legal (by unenforced Kuomintang law) 37%. Even this we only try to accomplish gradually because we don't want to drive away the landlords. Our limit on interest is 10% a year. This is not extreme—though it is much lower than it used to be.

Even the most conservative American businessman can find nothing in our program to take exception to.

China *must* industrialize. This can be done—in China—only by free enterprise and with the aid of foreign capital. Chinese and American interests are correlated and similar. They *fit* together, economically and politically. We can and must work together.

The United States would find us *more cooperative* than the Kuomintang. We will not be afraid of democratic American influence—we will welcome it. We have no silly ideas of taking *only* Western mechanical techniques. Also we will not be interested in monopolistic, bureaucratic capitalism that stifles the economic development of the country and only enriches the officials. *We will be interested* in the most rapid possible development of the country on constructive and productive lines. First will be the raising of the living standard of the people (see what we have done here with our limited resources). After that we can come to the "national defense industry" that Chiang talks of in his "China's Destiny". We *will* be interested in the welfare of the Chinese people.

America does not need to fear that we will not be cooperative. We must cooperate and we must have American help. This is why it is so important to us Communists to know what you Americans are thinking and planning. We cannot risk crossing you—cannot risk any conflict with you.

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#### EXHIBIT No. 316

[Pp. 142-144, vol. 793]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,  
November 10, 1944.

To: Secretary Morgenthau.

I think you will be interested in reading this.

H. D. W.

Mr. White, Branch 2058, Room 214½

TREASURY DEPARTMENT,  
November 10, 1944.

## INTEROFFICE COMMUNICATION

To: Secretary Morgenthau.

From: Mr. White.

Subject: Mao Tse-tung on how to handle the Generalissimo.

The following is an excerpt from a conversation of Mao Tse-tung with Mr. Service of the State Department in which Mao gives us advice on how to handle the Generalissimo.

"Chiang is stubborn. But fundamentally he is a gangster. That fact must be understood in order to deal with him. We have had to learn it by experience. The only way to handle him is to be hardboiled. You must not give way to his threats and bullying. Do not let him think you are afraid: then he will press his advantage. The United States has handled Chiang very badly. They have let him get away with blackmail—for instance, talk of being unable to keep up resistance, of having to make peace, his tactics in getting the 500 million dollar loan, and now Kung's mission to the U. S. and the plea for cloth. Cloth! Are we or are we not fighting the Japanese! Is cloth more important than bullets? We had no cotton here in the Border region and the KMT blockade kept us from getting any from the parts of China that did have it. But we got busy and soon we are going to be self-sufficient. It would be 100 times easier for the KMT, and if they were a government that had an economic policy they would have done it themselves.

"With Chiang you can be friendly only on your own terms. He must give in to constant, strong and unified pressure. Never relax on your objectives: keep hammering at him.

"The position of the United States now is entirely different from what it was just after Pearl Harbor. There is no longer any need or any reason to cultivate, baby or placate Chiang. The United States can tell Chiang what he should do—in the interest of the war. American help to Chiang can be made conditional on his meeting American desires. Another way for American influence to be exerted is for Americans to talk American ideals. Every American official meeting any Chinese official, in China or in the United States, can talk democracy. Visits like Wallace's give good opportunities; there should be more of them. Kung's presence in the United States should not be wasted."

Mr. Service has made a number of reports on his visit to Yenan available to Mr. Adler. They are being photostated and the more interesting ones will be shortly submitted to you.

EXHIBIT No. 317

[P. 273, vol. 787]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,  
October 28, 1944.

To: Secretary Morgenthau.

I think you will be interested in reading the bottom of page 3 and page 4 of Mr. Friedman's letter.

H. D. W.

Mr. White, Branch 2058, Room 214½

[Pp. 274-277]

[Declassified: Treas. ltr. 1/20/56]

OCTOBER 7, 1944.

MY DEAR MR. WHITE: I must begin by apologizing in advance for my typing as this is my first effort. It has taken me quite some time to get up enough courage to try to learn how to type. I have always bragged about how quickly I could learn if I tried and therefore have been most unwilling to try.

I presume that by the time this reaches you you will have had a chance to consider the Chinese suggestion that the Treasury might be requested to take steps to help enforce a Chinese decree ordering all Chinese to surrender their

foreign exchange holdings. The ostensible reason for considering such a move is that the People's Political Council suggested it as a means of financing increased allotments to soldiers. Actually the criticism in the PPC of allowing private holdings of foreign exchange is more likely a reflection of resentment against the war profiteers who are given opportunities to convert their ill-gotten gains into U. S. dollars at very favorable rates, since even the rate on missionary drafts is very low as compared with increase in profits and prices in recent years. It was probable also a manoeuvre on the part of some to embarrass those Government officials who are thought to have large holdings of foreign exchange. Moreover, it may be further complicated by the possibility that O. K. Yui, the acting Minister of Finance, wishes to demonstrate that he stands in well with the U. S. Treasury. It is being rumored here that Yui is being seriously considered by the Generalissimo as the successor to Kung and Yui does have very good political connections. He also has the advantage of having made a good impression on the PPC. In recent talks with me he has taken the line that he wishes to tell all to the Secretary of the Treasury as compared with his earlier attitude of being reluctant to say or tell anything of real significance. He may, of course, be acting under instructions from Kung, but I have no way of knowing.

I presume that we would be reluctant at this critical stage in China's political history to give the present Government, without any *quid pro quo*, the additional strength and prestige which might result from our active support to their commandeering the foreign exchange resources of private Chinese.

The atmosphere in Chungking these days is full of rumors of coalition Government, of which the rumors about Yui are merely a part. One rumor has it that Hsu Kan, the present minister of Food who coolly informed the PPC that no good people entered his Ministry, is also being considered as a possible successor to Kung. It is also rumored that the Minister of Education, Chen Li-fu, and the Minister of War, General Ho, are slated to be replaced, the latter by General Chen Cheng, who is now in command of the war area centering in Sian. General Chen is one of the most highly regarded of the Central Government generals, if not the most highly regarded of them all. He is said to be a bitter enemy of General Ho.

At the same time, there are stories to the effect that the Generalissimo in an address to party members last Monday denounced all talk of coalition government on the grounds that a coalition with the Communists was impossible. It is reported that Sun Fo has been urging the Generalissimo to accede to Communist inclusion in the government on the grounds that the Kuomintang now would have the superior position, but that this relative position was undergoing change as the Communists continued to gain prestige and the Kuomintang to lose it.

In connection with this highly complicated political situation, the activities of Congressman Judd were particularly interesting. He has been going around being more of an apologist for the Government than the Government spokesmen themselves dare to be these days. Last Thursday a dinner was given for him by the Chinese-American Cultural Institute, to which I was invited. Among the Chinese present were Chen Li-fu, General Ho, Sun Fo, P. H. Chang, official Government spokesman, and General P. S. Wang, Jap expert to the Generalissimo. It started dull, but by the time Judd had finished speaking, there was an air of astonishment and delight. There were only four foreigners, including myself, present. After the dinner, Mac Fisher and myself (Fisher is head of OWI out here) decided it would be a good idea to make notes on what Judd said. We only put down what we both agreed was said and therefore it represents a minimum. I am enclosing copy of the notes as we made them without any editing. In reading them, it is of interest that Judd had just returned from an interview with the Generalissimo and that he had previously told Fisher that he had seen a lengthy memo telling how the wave of criticism of the Chinese Government had originated with the U. S. Army in China. If the Generalissimo already has decided that all major political decisions here must await the outcome of the elections in November, this sort of speech would have convinced him and his advisors of the wisdom of such move. No one was present from the Embassy (the Ambassador was invited, but had a previous engagement) so I reported it to the Ambassador who seemed quite disturbed. I believe he passed it on to State.

At this dinner I sat next to General P. S. Wang, one of the Generalissimo's principal advisors on Jap affairs who has a mixed reputation for accuracy and sagacity.<sup>1</sup> He told me the following interesting story, asking that it be kept

<sup>1</sup> He is a member of a Fascist clique and favors a soft peace for Japan. S. A.

secret and saying that he had transmitted it to the U. S. Army headquarters the previous evening. The Japanese have decided to risk their fleet in defense of the Philippines. Admiral Nomura, a submarine expert, has gone to Formosa to get ready for the attack in which the Japanese hope their subs will play a large part. This attack may only be a matter of a few days off. If the Japanese lose this naval battle, they will realize that the war is lost and it will result in a new political crisis in Japan even if the war against Germany is going on. The Japanese army will not be able to continue resistance on the Pacific Islands or in China after this naval defeat and they fully realize this. The United States should do all possible to apply direct pressure on the Japanese Homeland; all other areas are of comparatively minor importance in achieving quick victory. Japan may be defeated in this way before Germany. I don't know to what extent or degree this story can be believed in view of the uncertain reliability of the source, but it is interesting that this is not the regular government line on Japan. The Government's position seems to be that China is vital to the defeat of Japan and that more and more of the American effort should be directed to alleviating the situation here. On October 6, the Ta Kung Pao formally called for the opening of a "second front" in China by U. S. and Great Britain. I presume this is the opening gun in a full-scale campaign.

I am enclosing a letter for Sol which contains some things you may find of interest. Please give my best regards to the Division.

Yours sincerely,

IRVING (signed).

P. S.—Do you think this typing would qualify me for the post of Mrs. Shanahan's third assistant. I'm afraid I know the answer.

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[Pp. 278-280, vol. 787]

NOTES ON SPEECH BY WALTER H. JUDD AT CHINESE-AMERICAN INSTITUTE OF CULTURAL RELATIONS, OCTOBER 5, 1944

First, autobiographical note on his experiences and background in China and then in America where he tried to awaken the American people to what was happening in the Pacific before Pearl Harbor. Then dwelt on over-optimistic view of everything Chinese which prevailed in the U. S. after Pearl Harbor and was further heightened by Madame Chiang's appearance (tear-jerking) in Congress. Mentioned George Fitch as another who tried to awaken American people.

Then beginning about last March, all over the country, simultaneously, as if at the click of an electric switch, there began to appear criticism—attacks and criticisms of the Central Government. (Clear implication if not direct statement was that Communists in America clicked switch.) One Sunday morning Earl Browder purchased full-page paid advertisement in newspapers all over the country (mentioned N. Y. Times, a Washington paper, a San Francisco paper). The point in the ads was that the U. S. must *compel* the Central Government to come to terms with the Chinese Communists.

Judd then elaborated briefly on the points of criticisms—aid to China goes to warlords to be retained for the civil war which is to be the real war for China, not the war against Japan; lack of democracy in China, lack of unity.

Speaker then proceeded to defend China against these criticisms. Said that England would have been lost by now if she hadn't had much more aid than China—also Russia. (Hear! Hear!) Told the story of what a tough time China had had, how much she'd suffered, how much progress she'd made nevertheless. Touching on democracy, said that while Britain was regarded as one of the oldest and most experienced democracies, she had not had an election in nine years. That America, which had had an election every four years for 168 years, was having difficulties now and that many Americans said they wished we did not have to hold one at this time. When we compare these two countries with China, what right has America, who has not had even a city bombed—not been touched by the war—and England, who has not been invaded—what right had they to insist that China hold an election now in the midst of all she is going through? "It is absurd to expect that China could or should institute democracy now, in this situation." (Here the only applause during the speech, led off by enthusiastic Minister Chen Li-fu.)

Touching on unity in China, he said that the degree of unity was all that could be expected. That it was more than England and Russia would have had if they had not received more aid than China. And if America had undergone

what China has, he would be surprised and grateful if she had maintained as much unity as China.

Emphasized that the Executive Branch of the Government cannot make binding commitments without the support of Congress, therefore he came out here to get information and help get American foreign policy off a partisan basis and onto a nonpartisan basis. Deplored alternating democratic and Republican foreign policies which contradict each other.

(When he mentioned that the original source of the criticism in America had been with the Communists, there was considerable note taking; one man translated this immediately and handed to Ho Ying-chin who nodded and smiled like a cat full of canaries. Considerable nodding of heads and rapt attention when drift of whole speech became clear. Following the breakup of the meeting Ho Ying-chin and Chen Li-fu invited him into a separate room, apparently to continue conversation.) (Both Kuomintang leaders favor civil war. S. A.)

Repeatedly stated that the United States had helped Japan in her war against China.

Clearly stated that Chinese self-criticism made a good impression in the United States but that he completely sympathized with Chinese objection to criticism by foreigners.

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EXHIBIT No. 318

[Pp. 262-264, vol. 801]

TREASURY DEPARTMENT,  
December 8, 1944.

INTEROFFICE COMMUNICATION

To: Secretary Morgenthau.

From: Mr. White.

I am appending memoranda prepared by Friedman who has just returned from China, submitting oral messages sent to you from—

1. General Hurley.
2. Dr. T. V. Soong, together with letter.
3. Dr. Sun Fo, son of Dr. Sun Yat-sen and President of the Legislative Yuan.
4. Chou En-lai, second man in the Chinese Communist Party.
5. General Wedemeyer, who has replaced General Stilwell as Commanding General of the Chinese Theater.
6. Madame Sun Yat-sen.

I think that you would be interested in talking to Friedman personally about the current Chinese situation.

GENERAL HURLEY'S MESSAGE TO SECRETARY MORGENTHAU

The following message for the Secretary was obtained orally in interview with General Hurley on November 15, 1944.

General Hurley said that he had been given a threefold mission in Chungking by the President: (a) to maintain the present government and work through the Generalissimo; (b) to keep China in the war; and (c) to unify the Chinese Army for a more effective war effort.

He feels that the Chungking Government consists of people who are "traditionalists" in that they take the position that the Japanese, even if they do win, will, like other conquerors in the past, lose in the end because they will be absorbed into the Chinese society. Moreover, they are interested only in preserving their own position. They claim, he said, to be prodemocratic and to favor the introduction of democratic processes. Actually, they are fascist and favor dictatorship and refuse to make concessions to achieve unity. As for their attitude on the United States, they regard the U. S. taxpayer as a "sucker" and despite the difference in situation, speak of deserving aid in the magnitudes given to Great Britain and to Russia.

As for the Communists, in his opinion, they are "the only real democrats in China" and favor multiparty government. He then cited his much repeated statement that in his discussions with Molotov in Russia, Molotov had made the point that the Chinese Communists were not real Communists and that, in reality, they were equivalent to the farmer-labor group in the mid-West. He said that the Americans did not understand the Chinese Communists and for what they really stood.

The Communists, General Hurley said, had done a better job of organizing for war than had been done by the Chungking Government. They favor the unification of China and the Chinese armies and had "offered a fine, liberal program to achieve unity." The Communists, he was sure, did not get Russian support.

With regard to the current negotiations on Communist-Kuomintang relations, General Hurley said that the Communists were fully prepared to cooperate in achieving a settlement and he already had their adherence to his proposals. He now needed the agreement of the Kuomintang group which had been appointed by the Generalissimo to handle the negotiations, in which T. V. Soong is the main figure. With regard to Soong, he felt that he was a "crook" but that didn't disturb him since he felt that in the environment of China wherein there was no such things as the Golden Rule, the Ten Commandments, Bill of Rights, Declaration of Independence, it was not surprising to find that their leading politicians were crooks.

He said that he expected to achieve the desired unity in a month or so or else he was "greatly mistaken" since he already had the Communists on our side and expected the others would come along.

With regard to the removal of General Stilwell and Ambassador Gauss, he said that they had had a "static" approach to the China problem; out of sheer disgust they favored "pulling the plug and allowing the show to go down the drain." This was not his mission.

We also discussed the financial negotiations going on in Washington and he said that he fully approved of the position being taken by the Secretary.

He concluded by sending his best regards to the Secretary and emphasizing that he felt the political situation in China would be considerably improved in the very near future.

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[P. 265, vol. 801]

#### MESSAGE FROM DR. T. V. SOONG TO SECRETARY MORGENTHAU

At a private lunch with Dr. Soong on November 8th, Dr. Soong asked that the following message be relayed orally to the Secretary, together with letter which is being attached hereto.

He said that the situation in China was "mending" and that there would soon be many major changes and reforms in the military and economic situation and in the political relations with the Communists. He said that he was not worried about the situation but rather was "serene" because the "bottleneck" had finally been passed. He was also expecting an improvement in the relations with Russia. He said that future world peace depended on ability to get along with Russia.

Until now the situation in China had been bad. Changes necessary for improvement had been held up by the nonremoval of General Stilwell. He had urged Stilwell's removal a year ago and said that it had been the reason for his returning to China in October 1943. President Roosevelt had displayed great courage in removing General Stilwell on the eve of the election.

He said that the present relations between the Generalissimo and General Wedemeyer were very good and that they were having daily informal conferences unlike in the case of General Stilwell. Stilwell and the Generalissimo had seen each other infrequently and on a formal basis.

He emphasized the fact that China and the United States had need for each other, particularly in the postwar period. He said that the United States had need for a strong united democratic China. He expressed cynicism about the talk of China being treated as one of the Big Four powers and said that in a way such talk was insulting since China's position would depend upon her internal strength and that external aid was necessarily of minor importance except in the short run. Thus, there is no necessity for any one to say that Russia was one of the Big Four because obviously she is, while in the case of China it is a matter of potentialities and China would be one of the Big Four if necessary internal developments took place.

He concluded by sending his best regards to the Secretary and said that he was looking forward to seeing him. He hoped to be in the United States within two or three months.

## MESSAGE FROM DR. SUN FO TO SECRETARY MORGENTHAU

The following conversation was held with Dr. Sun Fo on or about October 31st. Dr. Sun Fo is the son of Dr. Sun Yat-sen and the President of the Legislative Yuan.

It reflects his reaction to the recall of General Stilwell and Ambassador Gauss. The Ambassador's recall had not yet been announced but was known to such well-informed Chinese as Dr. Sun Fo. Dr. Sun Fo said that he was glad to send the following message orally to the Secretary and that he was sure that it would be kept completely secret since the consequences of any publicity would be very drastic.

Dr. Sun was very pessimistic about the situation in China. He said that Free China was undergoing a wave of reaction which was stifling even the small amount of political freedom which had come into being during the period of the Peoples' Political Council meeting in September. Thus, the meetings which had been called by the Democratic League to discuss constitutional reforms were no longer being held since it was now necessary to receive prior police permission to hold all meetings. This meant that all meetings were attended by spies of the government and, as a result, people were afraid to attend. Moreover, all talk of coalition government was forbidden and nothing could be said about it in the press.

The Generalissimo was in a more recalcitrant mood than ever and was feeling in a very strong position because he had been able to force the removal of General Stilwell. The Generalissimo now felt that he had nothing to fear from American pressure and that he need not live up to prior commitments on political reform.

The Generalissimo favored a military solution to the Communist-Kuomintang conflict rather than a political one. Thus, only the day before, Dr. Sun had been told by a General in command of the Kwangtung area that he had discussed with the Generalissimo the problem of what to do about the Communists in Kwangtung. The Generalissimo had replied that the General should use his troops to attack and wipe out the Communists and the Generalissimo had not been swerved in his attitude on this problem by having the point made to him that this would mean cessation of resistance against the Japanese in this area. In the opinion of Dr. Sun, such a policy was suicidal for the Kuomintang and the Chungking Government.

The Chinese Communists were spreading into the area which were being lost by the Chungking Government and already were very influential in the South-eastern provinces. Within a short period of time—within six months—the Communists would be relatively so strong that they could completely ignore the wishes and desires of the Chungking Government. The Communists knew this but because of their eagerness to prosecute the anti-Japanese war they were willing to enter into a coalition government at the present time which would preserve the Generalissimo as the head of state and keep the Kuomintang as a major political party in China.

Unless a coalition government was formed China in the post-war period would be Communist-dominated. On the other hand, if a coalition government was formed it could be expected that post-war China would develop along democratic lines similar to the United States. It all depended upon the willingness of the Generalissimo to make the necessary change but since the small group closest to him such as Ho Ying-chin recognized that coalition government meant the end of their influence, they were bitterly opposed to it and were consistently advising the Generalissimo against it and the Generalissimo was now following their advice.

In the opinion of Dr. Sun the removal of Stilwell and Ambassador Gauss were great blows to the cause of Chinese unity and considerably diminished the possibilities of needed political reform. He expressed sympathy with the Communists unwillingness to hand over their armies to the control of the Chungking Government until necessary democratic reforms had taken place since this would end the hope of democratic reform, as the Communists and their armies were the chief forces making for democratic reform in China.

At present, the influence of such liberals as himself was practically non-existent, and their future was extremely uncertain. It was extremely important that the American Government continue its policy of pushing for democratic reforms, national unity, reorganization of the Chinese armies, and activation of the Chinese armies.

The formation of a truly coalition government, he said, was essential for Chinese morale. At present, nobody wanted to fight the Japanese if it meant fighting for the corrupt Government in Chungking. The students, for example, were refusing to volunteer on these grounds. A coalition government would change this drastically and immediately. It would mean the revitalization of the Chinese war effort.

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[Pp. 270-272, vol. 801]

INTERVIEW WITH GENERAL CHOU EN-LAI AND HIS MESSAGE TO SECRETARY MORGENTHAU

On the evening of November 13 I received an invitation to have a private discussion with General Chou En-lai the following morning at 9:00 o'clock. General Chou is one of the three principal leaders of the Chinese Communists. General Chou En-lai had come down to Chungking from Yen-an about two or three days before at the request and under the protection of General Hurley. His presence in Chungking was still a top military secret and the invitation to myself to see him was the first extended to any civilian representative of the American Government in Chungking. (I don't know if any others received invitations since I left Chungking soon after.) It undoubtedly reflected the fact that in the opinion of the Chinese Communists, as in the opinion of other Chinese, the Secretary is the No. 2 man in the American Government and the Chinese Communists, like the other Chinese, are eager to have his good will.

In addition to Chou En-lai and myself there were present his interpreter and one of the Communist officials in Chungking (Wang Ping-nan) who left soon after the conversation began. Despite the presence of an interpreter, however, the conversation was carried on in English between General Chou and myself. It was made clear to General Chou that what he would say would be transmitted to the Secretary and General Chou said that he understood this perfectly and would be glad if it was.

We first talked about the economic and financial situation in the Northwest; the economic policies of the Yen-an Government and the possibility of economic and financial reorganization of the areas under the Chungking Government. Then we discussed the political situation. However, because of the greater immediate interest in the political statements made by General Chou, that part of the conversation is herewith given first.

With regard to the political situation, General Chou said that the purpose of his trip to Chungking was to help bring about the unification of China on the terms laid down in his October 10th speech, copy of which, together with some other material he gave me at this point. He said that the Communists were in favor of the prosecution of the anti-Japanese war but that they would not swerve from the basis which was laid down in his October 10th speech. They had waited eight years since the Sian Incident for the necessary democratic reorganization of the Chinese Government and they now felt that the objective situation made possible major changes within the year. (He refused to be pinned down as to whether within the year meant in 1944 or within the next twelve months.) He felt that with the aid of "our American friends" unity would come sooner. If his mission was successful, he would return to Yen-an but only temporarily; if his mission was not successful he would return to Yen-an permanently.

However, he said, if the present Government remained "unreconstructed" the Government in Yen-an, as the representatives of 90 million people or more would have to ask for separate representation with regard to such things as international conferences, etc. Of course, the Yen-an Government favored international cooperation in the financial field as well as in the political. He concluded by extending the invitation of his Government to the Treasury representative in Chungking to come to Yen-an for personal investigation of the situation there.

Throughout the conversation Chou En-lai spoke in the tenor of a responsible government official and never indicated any doubts that his party would be part of the ruling group of China in the years to come.

With regard to the economic and financial situation, Chou stressed the need in the Northwest for foreign technical assistance capital and machinery. He emphasized the fact that the guerrilla areas receive no outside help except what they were able to capture from the Japanese.

Production in Northwest China, he said, could be increased immediately with a comparatively small amount of foreign equipment.

With regard to the possibility of permanent economic development of the Northwest areas, he said he thought there was a basis for development of certain industries such as salt, chemicals, and cotton.

The possibility of the application of the small-unit type of production being used in the Northwest to the large cities in North and Eastern China was discussed. General Chou said that the economic reorganization of these cities after their liberation would necessitate a change in economic techniques. Small units would be used in the countryside but large-scale production used in the cities.

The question was raised as to the possibilities of increasing production in Free China. He said that in his opinion, if his Government had the power and authority to make the necessary changes, production could be markedly increased in six months. What was basically needed was a democratic reorganization of the Government and of the existing bureaucracy.

With the end of the blockade, the Northwest, he said, could actually provide the other parts of Free China with such things as woolen cloth, thereby alleviating the grave economic situation in these areas. The fundamental approach to China's economic problems was to increase production and improve transportation.

With regard to China's postwar position, her greatest economic need would be for foreign capital. In this connection, he said that the Communists were prepared to permit foreign ownership of Chinese industries, etc., under Chinese laws and that their plans called for the existence of three types of ownership: (a) national, (b) private owned Chinese, and (c) foreign owned. He said that they recognized the need for peace and security to attract foreign capital and that this would be achieved by the democratic reform of China which would end the fear of civil war. He stressed the fact that China needs a long period of internal and external peace. Moreover, China had to participate in international economic and financial organizations if she was to overcome her present backward state.

He ended the discussion of the economic situation by stressing the point that the Chinese Communists did not feel that the socialization of industry was the proper form of economy for China and that China's industrialization would take place within the framework of capitalist economy.

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[P. 273, vol. 801]

#### INTERVIEW WITH GENERAL WEDEMEYER

General Wedemeyer replaced General Stilwell as the Commanding General of the China Theater.

I called on General Wedemeyer on November 14th to tell him that I was returning to the States and that Mr. Adler was returning to Chungking.

We discussed the financial negotiations and he said that he favored a firm attitude in negotiations. He did not fear the effects of such a firm attitude even if it resulted in an attempt to blackmail us by refusal to advance funds. If this happened, he would refer the matter to the President. I informed him that the Treasury's attitude had always been to be as fair as possible to the Chinese, but always to refuse to be blackmailed.

General Wedemeyer said that he was looking forward to Mr. Adler's coming and would consult with him on all financial matters and would be glad, as in the case of myself, to receive suggestions and advice on all matters relating to the financial aspect of the U. S. Army's activities in China.

With regard to the military situation, he said that the situation was deteriorating but it was not hopeless and that he had not given up hope of having China make an important contribution to the winning of the war.

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[P. 274, vol. 801]

#### INTERVIEW WITH MADAME SUN YAT-SEN

Madame Sun was very pessimistic about the political situation in China. She felt that it all hinged on the willingness of the Generalissimo to change his

position and she did not see any great likelihood of that. She tended to deprecate the American role in bringing about a solution of the Communist-Kuomintang problem and indicated that she didn't think we were prepared to go beyond exchanging cables between Chungking and Washington. She clearly indicated that she felt that the Chungking Government was not interested in fighting the war and because of that would not be interested in a coalition government with the Communists who were interested in fighting the war. (At the time she gave no indication of knowing about the impending cabinet changes.) She scoffed at the idea that China's military defeats were due to lack of American aid and said that the Chungking Government was not interested in using the military equipment it received against the Japanese.

Because of the presence of an outside party (social caller who did not have enough sense to excuse himself and leave), I did not ask any questions. I was later told that Madame Sun had expressed regret at our not having had a completely private talk.

## EXHIBIT No. 319

[P. 103, vol. 782]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,

October 16, 1944.

To: Secretary Morgenthau.

From: Mr. White

Subject: Reports of the American Military Mission to Yen-an.

The actual texts of reports of the American Military Mission to Yen-an are not available to us. However, the War and State Departments allowed Mr. Adler to read these reports and make copious notes on them. The attached memoranda are based on these notes.

[Pp. 104-108, vol. 782]

TREASURY DEPARTMENT,

October 12, 1944.

## INTEROFFICE COMMUNICATION

To: Mr. White.

From: Mr. Adler

Subject: Highlights of American Military Mission reports from Yen-an.

1. *The general impression made on the Mission was extremely favorable, particularly by contrast with Chungking. The typical comment of American Army men was "a different country, a different people" and that Yen-an was "the most modern place in China." There was no show and formality, no subservience to leaders, no bodyguard, no gendarmes and no claptrap. While living is simple, there are no beggars and no signs of desperate poverty. Morale is very high, and the Mission reacted most favorably to the fact that the Communists never explicitly asked for any kind of assistance—a marked contrast with usual Chinese official behavior.*

2. *The following are the conclusions of Chungking G-2 on the first reports from Yen-an:*

The head of Army Intelligence in Chungking in transmitting the reports of Colonel Barrett's mission states that the following conclusions are justified:

(a) For 7 years the Communists have engaged a large proportion of the Japanese forces in China.

(b) For 7 years the Communists have successfully defended large areas in North China against determined and well organized large scale Japanese attacks.

(c) Since 1941 they have supplied themselves entirely by arms and munitions either captured from the Japanese or puppet troops or produced by their own unaided efforts.

(d) They have effected improvements in the conditions of the people in large parts of the areas under their control. The population of the areas under their control is not less than 50 million. (The New Herald Tribune correspondent gave the figure of 86 million.)

3. *The Communists have successfully resisted the Japanese for 7 years.*

(a) This resistance, conducted with no active support from Chungking for a period of from 4 to 6 years and of active hostility from Chungking in the form of a tight economic blockade and intermittent military attacks and sniping for at least 4 years, necessarily takes the form primarily of guerrilla activities although

there have also been many larger scale operations, particularly against puppet troops. Such resistance is based on an intimate alliance if not fusion on the political, economic, military and social level between the Communist troops and the people.

(b) *The Communists have at least 240,000 first line troops and 130,000 second line troops* who are comparatively well-trained, plus almost 2 million militia who have undergone some form of guerrilla training, but they are very short on equipment and munitions. There is barely one rifle per two men even for the first and second line troops, and men with rifles rarely have more than 30 cartridges. Most of the weapons in the possession of the Communists were captured from the Japanese or puppets.

(c) *The Communist armies' strong points* are their intimate ties with the people, their high mobility and the centralization of their command. Their weak points are their lack of equipment, particularly munitions, communications equipment and medicines, lack of specialized troops, and lack of uniformity. The center of activity of the largest army is in North China. The New 4th Army operates in Central China and there are a few thousand Communist guerrillas as far South as Kwangtung and Hainan.

(d) *The extent of Communist military activity* is best indicated by the fact that 21 Japanese divisions are engaged against them and by the following figures for the last year on which data are available. The 8th Group and New 4th Armies (i. e., the 470,000 first and second line troops) had 28,000 engagements in which 200,000 Japanese and puppets were killed [of which about a third were Japs—our Mission believes the number of Japs killed is somewhat exaggerated] and 73,000 taken prisoner, and in which 85,000 rifles and 1,000 machine guns were captured. Communist losses were 19,000 dead and 27,000 wounded. The technical operations of the Communists consist of minor engagements, the main purpose of which is also to prevent small Japanese forces from looting food, larger engagements with puppet troops and attacks on isolated forts and garrisons held by the Japanese, defensive operations on a still broader scale chiefly to protect key centers of food supply, and offensive operations for the purpose of expanding guerrilla areas into firmly held base areas.

4. *The Communists are anxious to cooperate with us militarily in whatever way they can.* They are not only ready to supply us with intelligence on enemy-occupied areas and to extend facilities for air rescue work, for weather reporting, and interrogation of Japanese prisoners, but also to coordinate their military effort with an Allied offensive by cutting the Japanese North-South Railroads and by undertaking to expel the Japanese from Manchuria if sufficiently strong. They would prefer to take orders from an Allied High Command in China rather than from the Kuomintang, which they say is bankrupt and not interested in fighting the Japanese. They were asked for a statement of their military needs but were informed that no commitments could be made by us; at the same time they went out of their way to avoid asking us specifically for any assistance. The Communists appear to believe that large land operations in North China and Manchuria will be necessary for the final defeat of Japan.

While there is nothing specific on this point in the reports of our Mission or the comments of Headquarters in Chungking, it would appear that our Mission is well disposed to the idea of cooperating with the Communists even to the extent of flying in a minimum of essential supplies such as munitions, bazookas, and medicine. (I understand that our Army in China has asked the Generalissimo for his agreement to our sending such supplies to Yenan but that his agreement was not forthcoming.)

5. *The Communist political program is moderate* in the sphere both of domestic and foreign policy. According to the political expert of the American Military Mission the Chinese Communist party "has a healthy moderate maturity" and "it is strong and successful and has such drive behind it and has tied itself so closely to the people that it will not easily be killed." "*Their interests do not run counter to those of the United States in the foreseeable future and merit a sympathetic and friendly attitude on our part.*"

Their domestic goal is what they call New Democracy, which includes defeating the Japanese, the institution and extension of internal democracy, and raising the standard of living by solving the agrarian problem and encouraging the growth of progressive capitalism in China. Mao Tse-tung indicated the Communists supported proper treatment of capital both Chinese and foreign after the war and as much free trade as possible. Concessions have been made to landlords in Communist areas; one of the objectives of Communist policy in this sphere was to reduce profits from the investments of capital in land in such

a way as to encourage landlords to invest surplus capital in industrial projects.

With respect to racial minorities within China the Communists favor giving them a considerable degree of autonomy within a United States of China. They wish to apply such a policy to the Mongols of Outer and Inner Mongolia, the Tibetans and Chinese Mohamedans of the Northwest.

In the sphere of foreign policy, the Communists favor China's adherence to the foreign policies already agreed upon by the United Nations in such documents as the Atlantic Charter and the Moscow and Teheran Declarations. They believe it is unrealistic to talk of the ultimate fate of Hong Kong as long as the Japanese are in China. With respect to the peace, they say that Japanese internal affairs must be solved by the Japanese people, although militarism and feudalism should be wiped out in the period immediately following on Japanese defeat. Democracy, they add, cannot be instituted in Japan as long as feudalism survives. They feel that the colonial countries of the Far East should have self rule. They deny having received any material support from the Russians. There would appear to be some division of opinion among them as to whether the Russians would come into the Far Eastern War or not.

6. *Kuomintang—Communist relations.* The Communists are pessimistic about the seriousness of Kuomintang intentions to bring about a settlement of outstanding Kuomintang—Communist issues. They claim that the Kuomintang is stalling and is putting on a show of negotiating for the benefit of public opinion both at home and abroad. The Kuomintang objective is to liquidate the Communists in a summary fashion immediately after the end of the war. [In this connection it is interesting to note that Mao Tse-tung, the leader of the Chinese Communist Party, raised the possibility of the opening of an American consulate in Yen-an, stating that the danger of the Kuomintang attack on the Communists would be greatest at the end of the war and implying that the presence of an American Government official in Yen-an would prevent such a clash. Mr. Gauss, our Ambassador in Chungking, feels that the National Government would never agree to our opening a consulate in Yen-an.] One Communist leader went so far as to say that if a turn for the better did not occur before the end of the year the situation might become hopeless. They recognize that American press criticism has played a constructive role in preventing the situation from becoming worse. Chou En lai asserted that American Government officials' conversations with high Chinese officials had been and could be even more effective in this respect. He mentioned Wallace's visit and alluded to Kung's presence in America, with reference to which he specifically stated that *Kung was more pliable and amenable than T. V. Soong*. Communist leaders do not expect Chungking to collapse before the end of the war. The Communists attitude toward the Kuomintang appears on the whole to be fairly conciliatory. Mao said that if attacked they would retreat, but when the point to which they could retreat no farther was reached they would fight, adding that if civil war broke out it would be protracted.

While the Communists attitude toward the Kuomintang is conciliatory, it is also firm. They realize that they are growing stronger and that the Kuomintang is growing weaker. At the same time they certainly do not want to provoke hostilities and would like to avert them if at all possible on terms which would not make them prisoners of the Generalissimo.

It is interesting to note that the Communist military leaders were sharper and more bitter in their criticisms of the Kuomintang than were the Communists civilian leaders. However, it is the latter who have the last word. While the former were very cynical in their comments on the Generalissimo and his immediate entourage (Chou En-lai referred to Shang Chen, the head of the Chinese Military Mission to the United States, as "empty headed"; he also poured ridicule on the Kuomintang plans to de-mobilize, asking when it had ever mobilized.) The latter go out of their way to recognize the National Government and the Generalissimo as the head of the National Government. Mao stated that what they wanted was recognition of the Border Area governments as lower organs of the National Government.

7. *The economic situation in Communist China is much better than in Kuomintang China.* An effective program for increasing production is being enforced and economic self-sufficiency has been attained with a consequent raising of living standards. Labor, including soldiers, students, and members of the Government and Party bureaucracy, is efficiently mobilized for agricultural and industrial production. The cultivation of cotton and the production of certain essentials such as soap and matches have been instituted for the first time in many areas.

The number of cooperatives, including productive and distributive cooperatives, has increased phenomenally. Private productive enterprise is encouraged by liberal Government credits. Owing to their measures for increasing production and their effective controls, inflation has not had serious effects on either the functioning of economy or on the living standards of the people. In fact, living standards have risen in areas which were previously among some of the poorest and most backward in China. Diet and health have improved, with wheat replacing millet as the staple.

[Pp. 108-118, vol. 782]

TREASURY DEPARTMENT,  
October 12, 1944.

INTEROFFICE COMMUNICATION

To: Mr. White.

From: Mr. Adler.

Subject: Summary of Reports of American Military Mission to Yen-an.

(Colonel Barrett is the author of the military reports and Mr. Service of the political reports. I know them both well. Colonel Barrett has spent many years in China and was Military Attaché until 1942. He is a sound and level-headed man. Mr. Service, who was born in China, has the well-earned reputation of being the best-informed American on internal Chinese politics; he is a member of the Foreign Service and is now attached as a political adviser to General Stilwell's staff. Both speak and read Chinese with fluency and facility.)

A. MILITARY REPORTS

I. *Conclusions*: The head of G-2 in Chungking in transmitting the reports of Colonel Barrett's Mission states that the following conclusions are justified:

(a) For 7 years the Communists have engaged a large proportion of the Japanese forces in China.

(b) For 7 years the Communists have successfully defended large areas in North China against determined and well-organized large-scale Japanese attacks.

(c) Since 1941 they have supplied themselves entirely by arms and munitions either captured from the Japanese or puppet troops or produced by their own unaided efforts.

(d) They have effected improvements in the conditions of the people in large parts of the areas under their control.

II. *The first military report* was enthusiastic over the cooperation and sincere friendliness extended to the American Military Mission by the Yen-an military and civilian officials. The Communists had been informed by General Ho Ying-chin that the purpose of the American Military Mission was to obtain intelligence on enemy occupied areas and to make arrangements for air rescue work and were surprised to find that the objectives of the Mission were much broader and included making arrangements for weather reporting, obtaining reports on Communists military activities against the Japanese, the possibility of utilizing air bases in Communist areas, interrogation of Japanese prisoners, etc. Colonel Barrett added that he also wished to obtain information on Communist military needs, but made it clearly understood that he was in no position to make any commitment as to the possibility of meeting those needs. The Military Mission was entertained by the Yen-an Government at an official dinner after which there was music and dancing. Members of the Mission were asked to sing American songs which were greeted with tumultuous applause.

Mao Tse-tung asked Mr. Service about the possibility of opening an American Consulate at Yen-an, pointing out that the danger of a Kuomintang attack on the Communists would be greatest when the war ended, and implied that the presence of an American Consul in Yen-an could prevent a clash. Ambassador Gauss feels that the National Government would never permit a Consulate to be opened at Yen-an and would not even agree to the temporary detailing of an Embassy officer at Yen-an. However, Mr. Service expects to stay there for several months and will be replaced by another Embassy officer.

The Mission was impressed by the initiative and planning ability of the Communists, who are apparently doing everything to cooperate with it. They encountered no suspicion or procrastination, such as is too often the case in Chungking.

III. *Report of Yeh Chien-ying, Chief of Staff of the 18th Route Army.* [This report contains information disclosed to the American Military Mission but not to the Kuomintang.]

Most of the weapons in the possession of the Communists were captured from the Japanese or from puppets. Much of the captured material cannot be used. The Communists have no regular arsenals and are short on munitions. There are 4 Base Areas in North China, in addition to the Yen-an Border Area, in which the 18th Route or 8th Group Army operates: the Shansi-Hopei-Chahar, the Shantung, the Shansi-Hopei-Honan and the Hopei-Shantung-Honan areas. In addition, the New 4th Army which was officially liquidated by the Central Government in 1941 but which has actually survived, operates from North Kiangsu right through central China as far South as Kiangsi. There are also small numbers of guerrillas in Kwangtung and Hainan Island. The 8th Group and New 4th Armies consist of field armies and local forces.

	8th Group		New 4th		Total	
	Men	Rifles	Men	Rifles	Men	Rifles
Field Armies.....	220,000	136,000	121,000	77,000	341,000	211,000
Local Forces.....	100,000	50,000	31,000	16,000	131,000	66,000
Total.....	320,000	184,000	152,000	93,000	472,000	277,000

It will be noted that there is barely one rifle per two men. Each man with a rifle is supposed to have 50 cartridges but often has only 30. Men are instructed not to shoot at a range of more than 200 yards except if they are particularly good shots, when they are allowed a range of up to 400 yards.

General Yeh pointed out that the main weaknesses of the Communists armies were that they had no special troops, that they were short even on light munitions and that the training of the officers needed improvement, lack of machineguns and light artillery, and lack of uniformity. On the other hand he claimed that its great strength was its high mobility and the high centralization of the command. Since 1938 when the National Government gave them 120 light machineguns and 6 antitank guns they had received nothing from Chungking. Some small arms were made by hand. He went out of his way to emphasize that he was not asking the American Military Mission for anything.

IV. *Further Military reports from Yen-an:* (a) It is the opinion of the American Military Mission that the greatest need of the Chinese Communist armies is munitions, portable weapons such as the bazooka, for example, communications equipment, and medicines. Such materials would have to be flown in by air, and would have to consist solely of essential supplies. The Communists claim that they could win the whole of Shansi with a little additional equipment and air support. While our Mission believes that this claim is overoptimistic, it agrees that the Communists could recapture substantial and significant areas under such circumstances.

(b) In addition to the members of the 8th Group and New 4th Armies, the Communists have 1,850,000 militia—i. e., presumably guerrillas. Morale is high. The Japanese are deeply hated owing to their savage conduct, and discipline is well maintained. Desertion to the enemy is rare and puppet support extremely good. The health of the troops was not particularly good.

(c) The tactical operations of the Communists can be classified as follows:

(i) Minor engagements in which the purpose is often to prevent small Japanese forces from looting the food supplies of the peasantry.

(ii) Larger engagements with puppet troops and attacks on isolated forts and garrisons held by the Japanese.

(iii) Defensive operations on a still larger scale in which again the protection of key centers of food supplies is an important objective.

(iv) Offensive operations with the purpose of expanding guerrilla areas into base areas, chiefly against puppets.

(d) The Communists are engaging 21 Japanese divisions. The 18th Group Army in one year had 23 thousand engagements in which 65 thousand Japanese and 80 thousand puppets were killed, 300 Japanese and 59 thousand puppet prisoners were taken, and weapons captured totaled 51 thousand rifles and 626 machineguns. Their losses were 11 thousand killed and 18 thousand wounded. In the same year the New 4th Army had over 5 thousand engagements in which

53 thousand Japanese and puppets were killed and 14 thousand taken prisoner, and in which 34 thousand rifles and 376 machineguns were captured. Their losses were 8 thousand dead and 9 thousand wounded. The high proportion of Communist Army dead to wounded is due to the fact that it is very difficult to rescue men or to cure them if rescued. It is felt by our Military Mission that the above figures are somewhat exaggerated with respect to Japanese casualties.

*V. Random points from the military reports.*

(a) The Japanese have used gas against the Communists who suffered quite heavy casualties at one stage owing to the lack of antigas equipment.

(b) Even machinegun companies often do not have more than 4 light and 2 heavy machineguns.

(c) Central government forces, i. e., guerrillas, behind the Japanese lines total 20 to 30 thousand and play a very small part in fighting the Japanese. In fact, their main role appears to be to keep the Communists out and to wait until the end of the war and be in a position to occupy the big cities around which they are congregating before the Communists occupy them.

(d) The Communists claim that they have documentary proof of the fact that Central Government agents often give the Japanese information with respect to location, etc., of the Communist troops.

## B. POLITICAL REPORTS

### *I. First report after six days in Yen-an.*

People going to Yen-an have heard such favorable reports from foreigners who have passed through or foreign correspondents that they are very much on guard against being swept off their feet or being taken in. Nevertheless, discounting the above, the reaction of all members of the American Military Mission was extremely favorable. This reaction was confirmed by the foreign correspondents then visiting Yen-an.

The typical comment of American Army men was "a different country, a different people". There was no show and formality, no subservience to leaders, no bodyguards, no gendarmes, and no claptrap, all of which are all too prevalent in Chungking. There were no beggars and no signs of desperate poverty. Living is simple and foreigners are entertained unostentatiously. The women are self-assured and unselfconscious, presumably as a result of the improvement in their social status. The general morale was extremely high. Almost everybody takes an interest in politics, even coolies reading the newspapers.

The atmosphere in Yen-an is that of a small town sectarian college or of a religious summer conference. Another comment by Army men was that it was "the most modern place in China". Mr. Service's conclusion was that the Chinese Communist Party has a healthy moderate maturity" and that "it is strong and successful and has such drive behind it and has tied itself so closely with the people that it will not easily be killed".

*II. Mr. Service's conversation with Chou En-lai* (Chou is the number two man in the Chinese Communist Party. He is well known in Chungking foreign circles, where he was the Communist representative until the summer of 1943. It is generally believed that he would be Minister of Foreign Affairs in any Government in which the Communists are strongly represented.)

According to Chou the Kuomintang will not make reasonable concessions to the Communists. A compromise is most improbable, and the Kuomintang has entered the talks with the Communists for propaganda purposes and in order to create an impression on foreigners, particularly Americans. The Generalissimo and Kuomintang no longer have concrete policies, are drifting and are awaiting favorable developments. The Kuomintang hopes at the end of the war to liquidate the Communists in summary fashion. The Communists neither welcome nor fear Kuomintang plans for attacking them. In the summer of 1943, the Kuomintang was hesitating between two alternatives, the first being to attack and the second to delay the attack until a more favorable opportunity. They were all set for attack when the Communists found out the Kuomintang plans, and the Kuomintang accordingly switched to the second alternative.

There is a steady decline in Kuomintang China, but there will be no sudden collapse. The Japanese do not plan to capture Chungking because Kuomintang China is dying a slow death, and if Chungking were attacked the Kuomintang would be driven toward unity with the Communists.

The Generalissimo is surrounded by second-raters such as the "empty-headed" Shang Chen, the head of the Chinese military mission to the United States. These people dare not tell him the truth and are only interested in maintaining

their own position. Chou poured scorn on the Kuomintang plans to demobilize, asking when, if ever, they had mobilized. He also ridiculed Kung's plea to have cotton cloth flown into China saying that cargo space should be used only for bombs, munitions, gasoline, etc. and that the production of cotton had fallen off in China purely as a result of Kuomintang inept food and price control policy.

He admitted that American interest in Chinese affairs had been extremely helpful. Outspoken press criticism had been of some use, but frank talks by high American officials with high Chinese officials were even more important. He cited Wallace's and Nelson's and Hurley's trips to China and added that talks on the right lines with Kung now that he is in the United States would also be most helpful. *In this respect he thought that Kung was more amenable and pliable than T. V. Soong.* Chou thought there was a tendency to underestimate the importance of the Chinese land theater as a result of the remarkable advances of the American Navy in the Central Pacific. He said it would still be necessary to rout Japanese troops in North China and Manchuria. He seemed to feel that the Soviet Union would come into the Far Eastern war but would not commit himself.

### III. Kuomintang-Communist Relations

The Communist military leaders were much more outspoken and more bitter in their criticisms of the Kuomintang than were the political civilian leaders who, of course, have the last word. It is understood that some of the military leaders had been rebuked for the sharp way in which they had expressed their criticisms to Americans. The political civilian leaders are obviously adopting an attitude of self-limitation with respect to the Kuomintang.

There are two possible explanations of the moderate program adopted by the Chinese Communists, not only in their relations with the Kuomintang but also in their political, social, and economic program.

(a) Theoretically the Chinese Communists are Maxists and believe that China is not yet ready for socialism, that she has to go through a stage of capitalist development before socialism will even be theoretically attainable. They also believe that socialism can be achieved in China by peaceful means as a result of a long and orderly democratic process.

(b) This practical explanation runs in terms of expediency and might even be called Machiavellian. According to this explanation the Communists know that they are growing stronger while the Kuomintang is growing weaker, and that as this process continues they have everything to gain and nothing to lose by a policy of conciliation and moderation, as things are moving in their direction anyhow. Moreover, the policy of moderation wins them foreign sympathy. It is thus the easiest and most convenient way of obtaining power. While according to the theoretical explanation they do not desire power for themselves alone for a long time to come, according to the practical explanation they do and the policy of moderation is the best means of obtaining it.

Mr. Service definitely favors the theoretical explanation but Mr. Drumright of the American Embassy in Chungking favors the second explanation. It should be noted that Mr. Drumright was formerly strongly pro-Kuomintang. While his predilection for the Kuomintang has weakened somewhat, his antipathy to the Communists has not. This would appear to be the reason for the difference of opinion within American diplomatic circles in China. Mr. Service's conclusion with respect to the Chinese Communists is *"their interests do not run counter to those of the United States in the foreseeable future and merit a sympathetic and friendly attitude on our part"*.

IV. Economic Conditions in Communist China. (This report, while perfunctory, does bring out the most striking features of the economic situation in Communist China.)

There has been a definite economic improvement in the last two years due in the first place to the Communist production campaign and to a succession of excellent crops. In the Yen-an Border Area there has been an improvement in diet, wheat having been substituted for millet and cotton is being grown for the first time. Banditry has been eliminated.

There has been a systematic campaign to mobilize every available hand for production and to eliminate loafing. Members of the Army must work either on the fields or in producing cloth or both. Students have to work two hours a day in addition to their studies. Government and Communist party officials also work on the cultivation of crops and vegetables and manufacturing cloth. The system of labor heroes has been introduced to stimulate production. The blacksmiths in Yen-an work day and night. Private productive enterprise is

encouraged with liberal credits from the government and premiums are given to merchants engaged in the risky business of moving goods through the blockade. The number of C. I. C. units has increased from 30 to 343 in three years. (The number of C. I. C. units has fallen steadily during the same period in Kuomintang China.) The total number of co-ops is 800 and include both producer and distributor co-ops.

Health has improved and there has been a reduction in mortality particularly from typhus epidemics. Taxes in kind are down to 12% and lower than elsewhere in China. As a result of original research in the locality, matches and soap are being produced for the first time from indigenous materials and are quite satisfactory and adequate in quality, which is unfortunately not the case in Kuomintang China. Paper is also being produced from a local grass.

The official exchange rate was recently reduced from Border Area \$10 to Border Area \$8 to CN\$1. The black market rate for Border Area dollars is actually higher, being \$6 to 1 but Mao Tse-tung explained to Mr. Service they did not want to lower the official rate too rapidly, as many peasants holding CN\$ would suffer. The inflation does not seem to have had an important effect on the lives of the ordinary people. Economic conditions in general are booming, the main difficulty being lack of technical personnel.

*V. Interviews—off the record—between foreign journalists and prominent Communist leaders.*

(a) Mao Tse-tung.

The Chinese Communist goal at present is not socialism but New Democracy in accordance with the Three Peoples' Principles. They wish to defeat Japan, to institute democracy and to solve the agrarian policy. Capitalism of a progressive character can develop in China. While they are controlling rents they have made rent concessions to the landlords; their objective in this sphere was not only to protect the tenant but also to reduce the profits from investment of capital in land in such a way as to encourage landlords to invest surplus capital in industrial projects. They believe in the proper treatment of capital both Chinese and foreign after the war and as much free trade as possible. There will be three forms of industrialization in China—State, large scale private, and handicraft. They hope that their governments will become lower government organs of the National Government, but they claim equality of party status with the Kuomintang. Village governments should be elected by the people and higher governments by direct or indirect election.

Their foreign policy was in line with the Atlantic Charter and the Moscow and Teheran Declarations. The Comintern had no place in the Far East. They had received no material support from Russia. If strong enough, they will undertake to expel the Japanese from Manchuria. After the war there should be a demobilization of the Kuomintang and Communist armies in the proportion of 6 Kuomintang soldiers to 1 Communist soldier.

Outer Mongolia is a part of China but should be recognized as a national entity, and there should be a Mongolian Federation within a United States of China, and similarly with the Tibetans and the Chinese Mohammedans of the Northwest who constitute distinct national groups.

Japanese internal affairs must be solved by the Japanese people through militarism and feudalism should be wiped out. It is unrealistic to talk of the institution of democracy in Japan as long as feudalism survives. Colonial countries in the Far East should have self-rule.

There is no likelihood of a breakdown of the National Government before the war ends. The Communists will retreat if attacked by the Kuomintang but when the point is reached when they can retreat no further they will fight. The Generalissimo does not want Allied Mediation between the Communist and Kuomintang or an Allied High Command for China. Civil war would be protracted. What China needs is internal peace.

(b) Chu Teh (the leader of the 8th Group Army).

The Chinese Communists are willing to cooperate with the United States and would coordinate their military effort with an Allied offensive by cutting the Japanese North-South railroads. They had already rescued eight American airmen who had made forced landings. If permitted, they could penetrate Kiangsi, Fukien, Hunan, Chekiang, and Kwangsi. They need ammunition as well as light arms, radio materials, medicines, and technical personnel. The Kuomintang is not much interested in fighting the Japanese. Two Kuomintang generals had gone over to the Japanese under orders from Chungking for the purpose of fighting the Communists and sent their families to Chungking as guarantee of good behavior. The Kuomintang had hundreds of thousands of

spies who, in the occupied areas, often cooperated with the Japanese. The Communists would accept an Allied Command in China, as the Kuomintang is bankrupt and is pursuing the inconsistent dual policy of fighting the Japanese and the Communists at the same time. While he was not specific, Chu did not believe the Russians would enter the war in the Far East, as they were exhausted from the war in Europe.

(c) Lin Piao.

During the last two or three years the quality of the Japanese troops in North China has perceptibly deteriorated.

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#### EXHIBIT No. 320

[Pp. 13, 14, vol. 792]

#### WILL THE COMMUNISTS TAKE OVER CHINA?

The Chinese Communists are so strong between the Great Wall and the Yangtze that they can now look forward to the postwar control of at least North China. They may also continue to hold not only those parts of the Yangtze valley which they now dominate but also new areas in Central and South China. The Communists have fallen heir to these new areas by a process, which has been operating for seven years, whereby Chiang Kai-shek loses his cities and principal lines of communication to the Japanese and the countryside to the Communists.

The Communists have survived ten years of civil war and seven years of Japanese offensives. They have survived not only more sustained enemy pressure than the Chinese Central Government forces have been subjected to but also a severe blockade imposed by Chiang.

They have survived and they have grown. Communist growth since 1937 has been almost geometric in progression. From control of some 100,000 square kilometers with a population of one million and a half they have expanded to about 850,000 square kilometers with a population of approximately 90 million, and they will continue to grow.

The reason for this phenomenal vitality and strength is simple and fundamental. It is mass support, mass participation. The Communist governments and armies are the first governments and armies in modern Chinese history to have positive and widespread popular support. They have this support because the governments and armies are genuinely of the people.

Only if he is able to enlist foreign intervention on a scale equal to the Japanese invasion of China will Chiang probably be able to crush the Communists. But foreign intervention on such a scale would seem to be unlikely. Relying upon his dispirited shambling legions, his decadent corrupt bureaucracy, his sterile political moralisms, and such nervous foreign support as he can muster, the Generalissimo may nevertheless plunge China into civil war. He cannot succeed, however, where the Japanese in more than seven years of determined striving have failed. The Communists are already too strong for him.

Civil war would probably end in a mutually exhausted stalemate. China would be divided into at least two camps with Chiang reduced to the position of a regional lord. The possibility should not be overlooked of the Communists—certainly if they receive foreign aid—emerging from a civil war swiftly and decisively victorious, in control of all China.

Since 1937 the Communists have been trying to persuade Chiang to form a democratic coalition government in which they would participate. Should the Generalissimo accept this compromise proposal and a coalition government be formed with Chiang at the head, the Communists may be expected to continue effective control over the areas which they now hold. They will also probably extend their political influence throughout the rest of the country, for they are the only group in China possessing a program with positive appeal to the people.

If the Generalissimo neither precipitates a civil war nor reaches an understanding with the Communists, he is still confronted with defeat. Chiang's feudal China cannot long coexist alongside a modern dynamic popular government in North China.

The Communists are in China to stay. And China's destiny is not Chiang's but theirs.

JOHN DAVIES.

Yenan, November 7, 1944.

## HOW RED ARE THE CHINESE COMMUNISTS?

The Chinese Communists are backsliders. They still acclaim the infallibility of Marxian dogma and call themselves Communists. But they have become indulgent of human frailty and confess that China's Communist salvation can be attained only through prolonged evolutionary rather than immediate revolutionary conversion. Like that other eminent backslider, Ramsay MacDonald, they have come to accept the inevitability of gradualness.

Yenan is no Marxist New Jerusalem. The saints and prophets of Chinese communism, living in the austere comfort of caves scooped out of loess cliffs, lust after the strange gods of class compromise and party coalition, rather shamefacedly worship the Golden Calf of foreign investments and yearn to be considered respectable by worldly standards.

All of this is more than scheming Communist opportunism. Whatever the orthodox communist theory may be about reversion from expedient compromise to pristine revolutionary ardor, the Chinese communist leaders are realistic enough to recognize that they have now deviated so far to the right that they will return to the revolution only if driven to it by overwhelming pressure from domestic and foreign forces of reaction.

There are several reasons for the moderation of the Communists:

(1) They are Chinese. Being Chinese, they are, for all of their early excesses, temperamentally inclined to compromise and harmony in human relationships.

(2) They are realists. They recognize that the Chinese masses is 90% peasantry; that the peasantry is semi-feudal—culturally, economically and politically in the middle ages; that not until China has developed through several generations will it be ready for communism; that the immediate program must therefore be elementary agrarian reform and the introduction of political democracy.

(3) They are nationalists. In more than seven years of bitter fighting against a foreign enemy the primary emotional and intellectual emphasis has shifted from internal social revolution to nationalism.

(4) They have begun to come into power. And has been the experience in virtually all successful revolutionary movements, accession to power is bringing a sobering realization of responsibility and a desire to move cautiously and moderately.

Chinese Communist moderation and willingness to make concessions must not be confused with softness or decay. The Communists are the toughest, best organized and disciplined group in China. They offer cooperation to Chiang out of strength, not out of weakness.

JOHN DAVIES.

Yenan, November 7, 1944.

## THE CHINESE COMMUNISTS AND THE GREAT POWERS

Confident in their own strength, the Communists no longer feel that their survival or extinction depends upon foreign aid or attack. Therein they differ from Chiang Kai-shek and his Central Government. The Communists recognize, of course, that the powers can accelerate or impede their expansion. It is largely on this basis that they view the Great Powers.

*The Soviet Union* has traditionally been friendly to the Chinese Communists. But the Communists have never received much more than advice and money from the Russians. And since 1937 the Soviet Union has scrupulously withheld all aid from the Chinese Communists. Russian materiel has gone to Chiang and been used exclusively by him—in part to blockade the Communists.

Possible future Soviet assistance to the Communists is a subject on which Yen'an leaders are uncommunicative. It seems obvious, however, that they would welcome such aid for what it would mean in extirpating the Japanese and giving impetus to Communist expansion into Central and South China.

With all of their strong nationalist spirit, the Chinese Communists do not seem to fear Moscow's political dominance over them as a result of possible Russian entry into the Pacific war and invasion of Manchuria and North China. They maintain that the USSR has no expansionist intentions toward China. To the contrary, they expect Outer Mongolia to be absorbed within a Chinese federation. They do not see this or any other issue causing conflict between Russian and Chinese Communist foreign policy.

*Britain*, the Chinese Communists believe, is determined to play its old imperialist game of dividing China into spheres of influence. They suspect an Anglo-American deal giving Britain a free hand west of the line Philippines-Formosa. And they fear a marriage of convenience between Chiang and the British whereby the Generalissimo would get British support in return for special concessions in South China.

*The United States* is the greatest hope and the greatest fear of the Chinese Communists. They recognize that if they receive American aid, even if only on an equal basis with Chiang, they can quickly establish control over most if not all of China, perhaps without civil war. For most of Chiang's troops and bureaucrats are opportunists who will desert the Generalissimo if the Communists appear to be stronger than the Central Government.

We are the greatest fear of the Communists because the more aid we give Chiang exclusively the greater the likelihood of his precipitating civil war and the more protracted and costly will be the Communist unification of China.

So the Chinese Communists watch us with mixed feeling. If we continue to reject them and support an unreconstructed Chiang, they see us becoming their enemy. But they would prefer to be friends. Not only because of the help we can give them but also because they recognize that our strategic aims of a strong, independent and democratic China can jibe with their nationalist objectives.

JOHN DAVIES.

Yenan, November 7, 1944.

EXHIBIT No. 321

[P. 232, vol. 771]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,  
*September 27, 1944.*

To: Secretary Morgenthau.

I think you will be interested in reading this letter from Mr. Friedman, in China.

H. D. W.

[Penciled note: White—See page 3. HMJr. Done.]

Mr. White, Branch 2058, Room 214½

[Pp. 233-240, vol. 771]

SEPTEMBER 14, 1944.

DEAR MR. WHITE: Thank you for sending me on that trip to Kunming and Chengtu. It was a very interesting and stimulating experience. I am sorry that I was unable to write to you during the trip because of inadequate mail facilities, i. e., I could send mail but the censors insisted at these places that they would have to read it, which is not done here.

The big news in Chungking these days is, of course, the seemingly inevitable fall of Kweilin and Luichow, a major airbase to the south of Kweilin. The Japanese have already advanced beyond Lingling, capturing or making unuseable many of our best bases in Eastern China. It was from these bases that the 14th Air Force carried out its successful sweeps against Japanese shipping off the China coast and effectively bombed Japanese strong points on Formosa. There are many theories prevalent as to why the Japanese are making the drive at this time and they range from purely military ones such as the desire of the Japanese to delay and make more difficult an American landing on the China coast to such highly political ones, such as that this campaign is part of an understanding between the Central Government in Chungking and the Japanese whereby the Japanese are destroying the most effective center of anti-Chungking feeling outside of the Northwest. In this connection, you may find the following incident of some interest. When in Chengtu, I visited Dr. Mei, the President of Yenching University and, I understand, a loyal supporter of the Chungking Government who has at times been used for "confidential missions". Making conversation, he said to me, "Of course, you have heard the rumors going around town that the Generalissimo is conducting peace negotiations with the Japanese." I said nothing, not having heard the rumor, but tried to look wise and receptive. Dr. Mei went on "These rumors are not true, but even if they were true, the Gen. would only be doing it to amuse himself."

It seems, however, that the fall of Kweilin at this time will not have the dramatic effects that were anticipated in late June and early July. By now, the edge seems to have been taken off the defeat while everywhere I went, Japanese successes prior to the fall of Hengyang were openly described by the Chinese as a "national disgrace," the present Japanese successes are being shrugged off as inevitable and as being more than counterbalanced by Allied successes in Europe and the Pacific.

The People's Political Council meetings are of course getting considerable publicity. The Central Government has seemingly, under public pressure, allowed the Council greater freedom of discussion than in last year's meeting. There has been particular criticism of the conscription methods used by the Central Government and just prior to the meetings the head of the conscription administration was removed. There has also been discussion of widespread corruption in administration, with special attention to corruption and abuses in collection of land tax in kind. The discussion on financial situation was held in executive session. The Chungking Government seems to be following the policy of removing the sting from the expected criticism by having Minister after Minister openly confess the sins of his administration prior to their discussion by the Council members. According to reliable sources, the Communists are going to raise the question of Communist-KMT relations at an open session, i. e. press present, and lay before the Council a dossier giving the complete history of the negotiations which are now stalemated. The Communists are displeased with the Generalissimo's speech which was taken as an open attack on them in his emphasis on need for abolition of independent armies.

The bargaining position of the Communists would seem to have been considerably strengthened by the U. S. military mission to the Northwest. Not only has the State Department been receiving most enthusiastic reports from its representative with the mission, Jack Service, but the military men who have gone up and come back speak nothing but the highest praise for the Yen-an people. They seem to be literally astounded by the cooperation which they are getting, the eagerness of the people there to learn from the Americans, the relative physical comfort in terms of good, clothing and shelter and the general atmosphere of good will. MacFisher, head of the OWI here has also gone up to study psychological warfare possibilities. The U. S. military men here are vying for the opportunity to go up there and see the situation for themselves.

In this general atmosphere of increasingly outspoken criticism of the Chungking Government and growing popularity among Americans here of Yen-an Government, the Chungking Government is said to be on verge of making some concessions to the People's Political Council: give Council the right to examine the budget, expand membership from 240 to 290, and have next assembly consist of representatives elected by provincial assemblies.

You will be interested to know that in that part of discussion on inflation reported in English-language press, the entire blame for sharp rise in prices in early part of 1944 was placed on Chengtu project—which of course, is a gross exaggeration and merely another example of how the Chinese try to make us the scapegoat for their mistakes and failings. Many of the U. S. military people here expect that if Kweilin falls, the fault, according to the Chinese, will be the Americans.

The Nelson-Hurley visit is now in full swing. I had an interesting talk with Nelson and his assistants which was brought to an abrupt end by the entry of General Hurley. At the press conference here, Nelson was very cautious as long as Hurley was present, but as soon as Hurley left, Nelson opened up and spoke quite frankly about his difficulties in Washington and his conflict with the Army on reconversion. In Kunming, there was considerable bitterness and criticism of the Mission, on the grounds that it strengthened the position of the Central Government at a time when it was rapidly losing prestige and power. There was similar criticism of the attention given to Dr. Kung, particularly the invitation to address the Senate.

The situation in Kunming is of considerable importance. There the governor, Lung Yung, is outspokenly critical of the Central Government and was quick to point out in talk with Consul General and myself that while his provincial troops were not "provincial" troops but actually "national" troops, they were not "Kuomintang Party" troops! The Central Government is not able to exercise effective control in this area so that you find outspoken criticism of it in the press and in conversation. Thus, Lung Yung, a provincial ward-lord surrounded by opium-smuggling and opium-smoking henchmen, becomes the guardian of the liberals and democrats! There is much hinting at open opposition to the Chungking Government and secret contact has been established between the Com-

munists and the Lung Yung-liberal combination, but, nevertheless, you get the impression that anything like open opposition will not come in the very near future, unless the lead is given by developments in other areas such as the setting up of a separatist government in the Southeast of China.

In Chengtu, the situation is even more obscure. There the Governor is a strong Kuomintang supporter but real control rests in the hands of local warlords nominally friendly to the Central Government. As in Yunnan, these warlords, who also engage in such things as opium smuggling, seem to feel that their hope for survival lies with their being "popular" and again you have them protecting outspoken critics of the Central Government. The most important of these groups is the Young China Party which, in the Chengtu area, is largely a party of landlords who have seemingly never forgiven the Communists for the treatment they accorded these landlords on their way to the Northwest back in 1935. There is no outward evidence of a Communist movement in the Chengtu area, but I understand that plans are being executed for establishing contact between the dissident groups in Yunnan and those in Chengtu region and that this will be effected during the next few weeks. This can all be accomplished within the framework of the Federation of Democratic Parties which is non-communist, pro-democratic reform and anti-Chungking.

Kunming was also interesting because it is a center of U. S. military activity. Air traffic over the "hump" is now well over 20,000 tons per month and when I was in Kunming, it was at the rate of nearly 32,000 tons per month, or probably twice as much military supplies as ever came over the Burma Road, but still just a few Liberty boatloads.

I should, perhaps, point out here that the 14th Air Force is a very impressive organization. With a force of only about 15 thousand men, as of July 15, they had destroyed over one million tons of Japanese shipping, had inflicted well over 16 thousand casualties on the Japanese (16,000 is figure for Hengyang campaign alone) and had shot down over 2 thousand Jap planes against about 200 U. S. planes lost. While the Chinese are doing ineffective dying in Southeast China and on the Salween, the Americans are doing effective fighting everywhere in Free China.

I picked up a few tidbits on my trip which were quite interesting and I would like to pass them on as I feel they are quite revealing as to the present situation, although they might be considerable exaggerations.

The Chinese forces on the Salween are repeating the oft-told tale of corruption; starvation and disease due to callousness and mismanagement by the top military people; useless slaughter of heroic troops under the command of men totally ignorant of military warfare; defeatism in the high command to a point of a psychological inability to realize that Chinese troops properly fed, equipped and led can defeat Jap troops; soldiers sent into battle against superior numbers of Japanese troops because no Chinese commander will risk the major portion of his troops in any one engagement; soldiers sent into battle with insufficient training and not instructed to crouch or dig fox holes because such protective measures would mean loss of face; soldiers making futile and costly frontal assaults in daylight; Chinese losing 3 to 1 against the Japs, while Merrill's Marauders killed 60 to 1; Chinese commanders insisting on bringing in more troops than planned for, thus upsetting at the last moment carefully laid plans; American advisors being ignored except to be asked question—how soon could the necessary supplies be made available? These are not my thoughts but rather the opinions given to me by high ranking American officers who had just returned from the Salween front.

These are some stories they tell:

When the Chinese forces came to the Salween, the American engineers estimated that it would take them about 4 days to build a bridge across the river. It took the Chinese seven weeks, for a month was spent convincing the Chinese command that a bridge should be built. The Chinese command opposed the construction on the grounds that if a bridge was built the Japanese could use it in a counteroffensive aimed at capturing Kunming.

The Chinese on the Salween were shelling one of the many highly publicized Jap points of resistance. One Sunday an American GI decided to go for a stroll through the town and did so. He saw some dead Japanese and picked up some souvenirs in true American fashion and calmly walked through the town as though on a Cook's tour. He didn't see any live Japanese or any evidence of such. After he returned and reported his rather extraordinary experience, the Chinese continued to shell the town, and a week after this incident still hadn't stormed the town.

As for the famous battle of Sungshan mountain in which the Chinese dislodged the Japanese from the top of this mountain, the Chinese kept asking for more and more dynamite until General Dorn finally asked why so much dynamite, since he had given them enough for a campaign. They showed him the plans of attack and, in the words of the teller of this story, their plans called for tunneling through this mountain practically at its base. When the day came for the big blowoff every coolie in the Salween knew about it. Finally the charge was exploded, while the Chinese withdrew to a safe distance. After the smoke had cleared the Japanese were found to have moved out of their pillboxes into the craters conveniently made for them by the explosion and the battle went on.

According to one informant, the Japanese have only 4,000 troops preventing the reopening of the Burma Road, and the progress that is being made is more the result of Japanese deliberate withdrawals than Chinese pressure. It is said that the combat efficiency of these troops as compared with Americans is about three percent. (I hear in Chungking that the Japanese are now sending reinforcements into Northern Burma.)

The stories I heard about the North China (Honan) campaign were, if anything, even worse. I will give you one—when it was recommended to General Chow Cheh-jou that the Chinese Composite Air Wing bomb a concentration of Jap tanks in one of the rail centers before the Honan campaign really got under way, General Chow felt that this would be a misuse of his air power which should instead be saved for the battle. The net result, as told to me, was that the same airmen had to seek out these same tanks in groups of 2 and 3 when they were scattered throughout the countryside and spearheading the Japanese drive, instead of getting them all in a bunch.

I have more of such tales, but I'm afraid that I've already given you more than enough to make the point. The others can be had for the asking.

(No signature.)

#### EXHIBIT No. 322

[Pp. 54-63, vol. 703]

[Penciled note: Harry White is there anything in this I ought to know?—H. M., jr.]

[Declassified: Treas. ltr. 11/3/55]

FEBRUARY 22, 1944.

To: H. D. White.

From: S. Adler.

Subject: Report of Press Conference on Chinese Internal Situation.

There is appended a detailed report of the press conference held by the Minister of Information and Vice-Minister of Foreign Affairs on February 16. The conference, which sheds a great deal of light on the internal situation in China, has already contributed to a slight relaxation of the tension which characterizes Kuomintang-Communist Party relations. One local wit has remarked that the foreign press conference fulfills the role of the Chinese Parliament as it is the only place where Cabinet Ministers can be interpolated and interrogated. Because of its highly dramatic character, the conference is reported in the form of a one-act play; for background information Liang, the Minister of Information, who is a member of Dr. Sun-Fo's group, is an incorrigible and unscrupulous prevaricator, while Dr. K. C. Wu, the Vice-Minister of Foreign Affairs, is a smooth nonentity who largely owes his position to the fact that he has a beautiful wife who is a close friend of Madame Chiang.

#### *Dramatis Personae.*

Liang, Minister of Information.

Dr. K. C. Wu, Vice-Minister of Foreign Affairs.

Dr. P. H. Chang, Counsellor of the Executive Yuan.

Brooks Atkinson, New York Times Correspondent, referred to as B. A.

Theodore H. White, Time and Life Correspondent, referred to as T. W.

Gelder, News-Chronicle Correspondent, referred to as G.

Guenther Stein, Christian Science Monitor, Daily Telegraph and Manchester Guardian Correspondent, referred to as G. S.

Israel Epstein, Sydney Morning Herald Correspondent, referred to as I. E.

Various other foreign correspondents.

Scene: Conference room of Ministry of Information, Chungking.

Time: The afternoon of February 16, 1944.

The conference opens with Mr. Liang, Dr. Chang, and Dr. Wu seated at the head of a long table with the various foreign correspondents sitting around the table.

T. W.: "The Central News (the official Chinese Government news agency) recently issued a statement on American politics saying that despite all talks of unity there was great disagreement between the two American parties. It is good that such a thing should be published in China, but American correspondents would like to publish similar articles about China. This is why I am now going to ask if the Minister can tell us if the blockade of the Communist area is still continuing."

Liang: "What do you mean by blockade? And what is your source of information regarding the blockade, and where does it come from?"

T. W.: "I have been in Sian four or five times since 1939. There I was told it was impossible to go from Sian to Yen-an, impossible to send medical supplies, and that military supplies were not being sent. People do not go to Yen-an. This is the blockade that I refer to and which I should like to know more about."

Liang: "I know that men like Chou En-lai and his people go to Yen-an without any restrictions being placed on their movements. Transportation of the 18th Route Army goes back and forth without hindrance. So the word 'blockade' does not seem to bear out the situation."

B. A.: "Does the spokesman deny that there is any blockade of the North-western area?"

Liang: "I cannot understand the situation when you refer to 'blockade' because to my knowledge representatives of the National Military Council go back and forth, and there is constant communication in that respect."

G.: "How many transports of medical supplies have been allowed to go through since 1940?"

Liang: "I cannot give the information because the question must be referred to the National Military Council."

G. S.: "Does the Minister know of medical supplies from abroad specifically sent for this area which were detained and confiscated?"

Liang: "I have heard about this but have not got the full information with which to answer the question."

A foreign correspondent: "Can we be given this information at a later date?"

T. W.: "According to articles published in America, since 1939 the Communist Army has received no supplies from the Government. Can the Minister tell us whether military supplies have gone to the 18th Group Army?"

Liang: "In order to get details I suggest that you might interview General Ho Ying-Chin (The Minister of War)."

B. A.: "If the Minister objects to the use of the word 'blockade,' is there any other word we can use to describe the situation? For it is common knowledge that people cannot pass freely to Yen-an as to other parts of China."

Liang: "In connection with this problem of the relationship between the Kuomintang, the Government, and the Communist Party, I shall say a few words 'off the record'. In this connection I am looking forward to the opportunity to invite the foreign friends to a specially arranged meeting when the question will be discussed more thoroughly. In the eyes of the Chinese people the relations between the Communists and the Government are regarded as something concerning our internal situation—our internal affairs. The present policy of the Government is to seek a solution by the political method. So in connection with the relations between the Communists and the Government it is not the intention of the Government to make an issue for publicity abroad. In the past there were two occasions . . ."

T. W.: "May we have an 'on the record' statement?"

Liang: "In order to avoid the situation being misunderstood, I have said a few words, and as a matter of fact shall not dwell on the subject unless you request it for discussion. The differences which might exist between the Kuomintang and the Communist Party could be ironed out, because such differences are regarded as matters of domestic concern and the Chinese people do not think that such differences which could be ironed out should be treated as material for propaganda abroad. The Chinese attitude towards the situation is like this: the whole thing may be likened to a family dispute in which some members of the family differ from the views of other members of the family. Such disputes will eventually be settled; so I think it is not necessary for these things to be publicized. Fundamentally there is a psychological difference between Westerners and Easterners in looking at the situation. I say that in Chinese thought it is important to remember that the man in power says little and acts more."

G.: "Is the blockade in Chinese thought a sample of action?"

Liang: "To have a good government it is necessary to do more and talk less. We do not emphasize propaganda. In the West you think you should publicize new regulations made by your government. This is an example of difference in psychology.

T. W.: "We are constantly pressed by people in America who wish to know what is going on. We wish to know the answers to our questions for publication in America, just as Chinese correspondents send out dispatches about us."

Liang: "The situation is a little bit different. I think our correspondents would be very glad to obey your Government's orders if they asked them not to ask such questions. The Chinese Government forbids answering such questions. If there is no blockade . . ."

Wu: "There is no blockade in North China." [Laughter.]

G.: "If both members of a family have guns in their hands and the guns go off, isn't that a serious situation?"

Liang: "How do you know the guns will go off? It is the policy of the Government not to let the guns go off. There is no possibility of the guns going off."

G.: "But the Chungking Government has guns to prevent me from going up to the Northwest."

Liang: "We have soldiers here too. We do not fear that any of our soldiers here will let their guns go off. There are troops everywhere for police purposes."

T. W.: "This is a family dispute. I have heard a Minister of the Government say that the Communists are a group of gangsters, warlords, etc. This does not sound like a family quarrel."

Liang: "These words (above) were not said for publication. I do not think that the matter should be given emphasis and that the situation be aggravated by putting too much stress on the affair. In the eyes of the Chinese people and the Government the less emphasis we place on the affair the better for everybody."

T. W.: "This is not a question of over-emphasis but of under-emphasis. Not a single correspondent has been allowed to send out a full dispatch on the situation for over a year."

Liang: "In the first place we are fighting this war for a common purpose. It is for the final victory that China should be unified. It is our declared policy to be unified and to solve the difficulty by political means. There is therefore no reason to have foreign countries make out this matter as if it could not be solved in a political way. It is the sincere, earnest desire of the Chinese Government to solve it in a political way, and therefore we do not want to talk about it. It is no good to make a lot of noise about it. As a war correspondent of a friendly ally you should not do it."

E. A.: "What is the status of the 18th Group Army? Is it an integral part of the nationalist army on the same basis as other armies?"

Liang: "It was originally regarded as a part of the regular army but due to cases of insubordination a new situation has arisen and supplies have not been sent to them."

B. A.: "For how long?"

Liang: "But it is the wish of the Chinese Government that the 18th Group Army may become once more a part of the Chinese forces, the Chinese Army, as was the case when the war first broke out, and at a previous conference the Minister mentioned that the Communist Party indicated a desire to send a few members to Chungking and in compliance with their wish a message of welcome was sent to them intimating that the Government is prepared to seek a solution by political means."

G.: "What basis is there at the present moment for negotiation, including the fact that the Minister says that a new situation has arisen and no supplies have been sent?"

Liang: "When I assumed office I made the remark that the report that an armed conflict would occur was without foundation and that the matter could be borne out by fact and that in six months' time you would see that what I said was true. It is now nearly six months since that statement was made. An armed conflict has not occurred, bearing out what I said. The situation became aggravated when the report was circulated that the radio station of the 18th Group Army had been closed down, and I made a statement that there would be no possibility of conflict and that the measure was applied to all stations."

G.: "I hope we shall not be accused of rumor. When I asked if the station was closed I was told that it was not closed. The station to which I was referring was closed and is closed—I know for a fact. I expect a direct answer to my

questions. If what the spokesman has said is an implied criticism, I think the statement should be withdrawn."

Liang: "So far as I know, the day you make the inquiry the radio station was not closed (This is an unmitigated lie, see Addenda), although the order had already been issued to close all the radio stations of the different military groups and was later carried into effect. There was no prevarication. Later it was closed."

G.: "I was told that the Government did not wish unproved news to go out of China, I was invited to go and see the station in operation. I accepted the invitation, but I was never taken to see the station."

Liang: "Later it was closed. What would have been the use of taking you to the station one day when it was working when the next day it was to be closed?"

G.: (heatedly) "If we are to be accused of interpreting suggestions here as rumor, I do not propose to ask any more questions."

Liang: "Did anybody say that you, that Mr. Gelder, was spreading rumors?"

T. W.: "The Japanese radio continually says that they are fighting with the New Fourth Army, but in Chungking we are told that the New Fourth no longer exists. Which is true?"

Wu: "If you want to read Japanese news, go ahead."

Liang: "There are elements in China who are playing up the situation \* \* \* in order to serve their own ends. Recently a message carried by Reynolds News quoted Madame Sun Yat-sen's statement in connection with her appeal to labor in England and America saying that the reactionary elements in Chungking are trying to tighten the blockade against the Communist area and that China was on the brink of conflict. Here is a report, apparently a twisted report. I called on Madame Sun and she denied it, producing the original telegram which reads:

"On 32nd anniversary founding Chinese Republic we must remember that progress toward democracy is like learning to swim. One learns not by talking about it but by getting into the water. War against Japanese military fascism provides another measure (?). Those serve best who devote all their energies to fight against aggression. American friends can help Chinese democracy by actively supporting all elements actually engaged in fighting Japan—Soong Ching-ling (Madame Sun)."

"There is nothing like 'reactionary elements' in her telegram and nothing like a demand for lifting the blockade, etc., and yet such reports appeared and were carried by Reynolds News. As a matter of fact her wish is that there should be cooperation among parties in China in the best interests of fighting aggression. (For the correct details of this episode which Liang has distorted see Addenda.) I do believe that you want to report the truth—either reporting the truth or visualizing the situation before it comes about like a prophet or a man of prudence and wisdom but refusing to be instrumental for something which does not exist. Once more, I reiterate that I would like to have the opportunity to put the matter before you in future, and if you will excuse the spokesman this matter will be regarded as concluded."

Chang: "The Minister of Information proposes to conclude for the time being the discussion. This question of the Communists will be discussed later and he further proposes in the very near future to invite you to a special conference in which he will give you a long talk of two or three hours, and there you will have ample opportunity to thrash out everything."

"In connection with the cables which you will be sending, the Minister would state clearly that in his opinion if whatever is sent does not work to the detriment of the interests of the Government, the Government is doing its best to settle the affair by political means, the Minister would not see the necessity for censorship; but if it works against that important purpose, the Minister is afraid that a measure of censorship will have to be enforced."

I. E.: "With regard to the statement that the 18th Group Army was regarded as an army of the National Government until a situation arose which necessitated the stopping of supplies, how long have the supplies been stopped? Second, with regard to the cable sent by Madame Sun Yat-sen in which she says "American friends can help Chinese democracy by supporting all elements actually engaged in fighting Japan", can we not take this as an implied criticism that the two armies are not equally supported?"

Liang: "I will answer later as to when payment of troops was suspended. The situation was this, the Communists were collecting taxes on their own responsibility. The moment that was known to the Government payment was suspended."

"In the original telegram the phrase 'American friends' is mentioned and has nothing to do with the Chinese Government. Within the last two weeks there has been no special reason to lay special emphasis on the Communist problem. Within the last two weeks one Army Corps has been withdrawn from the area. (Previously three armies had been added.) From the Chinese Government point of view we think the situation is not tense at all. In fact it is very quiet."

T. W.: "There has been a very great lessening of tension in the last two weeks, and no correspondents here have have fear of civil war before the Japanese are defeated. But for months and years we have been blockaded. We have not been allowed to mention the situation. Now the pressure on us is intense, and we in turn are turning the pressure on you. We do not want to make any trouble in China. We would like to paint accurate pictures. We refuse to send out partial accounts."

Liang: "It is to nobody's interest to dwell on this. Differences can be ironed out. Why should we make a mountain out of a molehill?"

T. W.: "You are trying to make a molehill out of a mountain."

Liang: "An Army Corps has been withdrawn. But why play up this fact? Why not wire back that the situation is less tense?"

G.: "China has constantly demanded increased aid from America and England. That will cost many lives, and British people are entitled to know whether China is all-out to defeat Japan. If the Chinese Central Government has thousands of troops blockading other Chinese troops, how can they be all-out against Japan?"

Liang: "In Szechuan we have a lot of troops. In every war you have both to fight at the front and to police in the rear. You are much better organized and do not need this. It is to the benefit of everyone that peace and order be maintained."

G.: "It is not fair to assume that correspondents are critical of this situation just for the sake of being critical. We have asked and are entitled to ask again that we shall be allowed to go to the Communist area."

T. W.: "I have never been in a country where correspondents have such an affection for the country they are in as here, but our affection for this country cannot prevent us from telling the truth to our people."

G.: "I want to ask if we shall be allowed to go to the Communist area."

T. W.: "If the Government is going to make a statement about the situation, I should like to ask the Communists to prepare a statement to cable also."

Liang: "The Communists have been making all kinds of statements. I should like to find out if the Central Training Corps (? probably Course, given in Central Training Institute to Government officials, Kuomintang functionaries, and all Chinese who are going abroad) has been regarded as a concentration camp."

T. W.: "No, I have not heard that."

G. S.: "Can we ask Yen-an for a statement on the situation?"

Liang: "Not from a separate government in wartime."

G. S.: "Will you allow me to send a cable to Yen-an asking for a statement? If and when I get a reply, will you allow us to publish it?"

Wu: "It is not our system to allow local governments to make separate statements. Sir Oswald Mosley was forbidden access in your country."

G.: "Are you suggesting that the Communists in North Shensi stand in the same relation to the Central Government as Mosley to the British Government?"

Wu: "Oh, no. Do not quote me. I am just talking."

T. W.: "There should be free speech unless it endangers the war. Mosley said the German system was the best and was doing his best to undermine the Government."

Liang: "I do not wish to say that the Communists are trying to undermine us. If we go that far, how can we solve this question?"

G. S.: "Is it worth my while to spend money on such a cable?"

Liang: "You must send it by the military telegraph station."

G. S.: "So there is a blockade."

A foreign correspondent: "Are correspondents permitted to go to Yen-an and North Shensi?"

Liang: "So far as my opinion is concerned I hope that all of you may go, but this has to be approved by the military authorities."

B. A.: "Here is a letter signed by some of the correspondents to the Generalissimo for permission to go to Yen-an."

Wu: "So this was all prearranged." [Laughter.] Conference adjourns.

## ADDENDA

1. With respect to the Communist radio station in Chungking, it was closed on January 15. The news got out and journalists started asking questions. Gelder towards the end of January asked specifically if the Communist station was closed. He was told that it was not and that he could go see for himself. When he took up the offer he was turned down. On February 4 the Government issued an order, making it retroactive to January 15, closing down all non-Central Government radio stations in Chungking. The ground that was given was military secrecy, it being claimed that the Japanese had broken one of the codes. It was pointed out by the journalists that from the point of view of military secrecy it was much better to let the 8 radio stations of the various provincial governments and area armies continue to function than to have all messages sent on the National Military Council radio which the Government spokesmen admitted used only one code.

2. With respect to Madame Sun, it appears that Liang did call on her to ask if she was responsible for the statement in Reynolds News, which she denied. But she has written both to the foreign press and to Liang that he distorted her formal denial to include a denial on her part of the existence of a blockade, a denial she had never made. On the contrary as the trustee of foreign relief organizations which had been trying to send medical supplies to the Border areas she had been fighting the blockade for 4 years. (Incidentally General Ho Ying-Chin and Wu Tei-chen called on her to rebuke her for her message to England and America. Moreover she has received an invitation from some American relief organization to visit the United States, but she was told by the powers that be that she could not leave China.)

3. After the press conference of February 16, the Counsellor of the British Embassy here sent for Gelder and rebuked him for asking questions which were embarrassing to the official Chinese spokesman. Gelder who is a pretty independent and ultra-professional journalist told his Counsellor to go to hell. This attitude on the part of the British Embassy is in marked contrast to the attitude of our Embassy, which views the interest the journalists are taking in Chinese internal affairs with at least tacit sympathy.

4. Our military attache here, who is not particularly well-informed on internal problems, rather foolishly boasted that he had encouraged the journalists to raise the whole issue. As a matter of fact his boast is inaccurate, as the journalists were quite capable of doing it off their own bat without any outside encouragement. Be that as it may, the boast reached the Generalissimo's ears; accordingly he sent for our leading military representative and pointed out that the military attache was not only the representative of the American Army but also a representative of the United States Government and that he had therefore no business to meddle in such matters.

5. The foreign correspondents' petition to visit Yen-an has been presented to the Generalissimo, but no action has yet been taken on it. (On possible visits to Yen-an see body of my letter.)

6. Hollington Tong, the Vice-Minister of Information in charge of supervising foreign correspondents frankly told one foreign correspondent that the reason why the Government has not let them visit Yen-an is that all correspondents who have been up there have come back with favorable reports. Incidentally at a meeting of high Government officials last Monday General Ho Ying-chin complained that Hollington Tong had failed in inculcating the right approach among foreign correspondents and that the Government had lost out to the Communists in this respect.

7. It is reported that partly as a result of last Wednesday's press conference two truck loads of medical supplies are to be allowed to go through the blockade, but this report has not yet been confirmed.

## POSTLUDE

On Thursday the 17th, six foreign correspondents interviewed General Tung, who has represented the Communists here since Chou En-lai's departure. Tung stated that the Communist policy was to support the Central Government as long as it led the War of Resistance against Japan and insofar as it honestly aimed at the realization of the Three People's Principles; he claimed that in the Border Areas they had already realized the First Principle of Nationality and the second Principle of Democracy but that they were still far from attaining the third Principle of the People's Livelihood. The Communists certainly did not desire a civil war. As for the blockade he said the journalists could go up to the

Northwest to see for themselves and advised them to note the number of block-houses if they did make the trip, adding that you could always move soldiers around but that you could not move blockhouses. He also indicated that the Communists would welcome the journalists going to Yen-an. The journalists concerned prepared stories of this interview, all of which have gone to the Generalissimo for censorship.

N. B.—All of the above is strictly confidential. The press conference was "off the record" and should therefore be treated as strictly confidential also.

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EXHIBIT No. 323

[Pp. 37-51, vol. 703]

FEBRUARY 22 (1944).

Letter V

DEAR DR. WHITE: Chungking has been quite lively of late, in fact, more so than for a long time, and there are quite a number of developments to report.

1. *Internal Political Situation*

There has been a slight relaxation of tension in Kuomintang-Communist Party relations, which improvement is due to a considerable extent to the lively interest shown in them by foreign public opinion in general and by foreign correspondents in Chungking in particular. So exciting was last week's press conference on the subject that I am enclosing a verbatim stenographic report which I am sure you will enjoy reading. Have also attached addenda on background and on points arising out of the conference. The same subject will be discussed at today's press conference, too, and if news of it reaches me before this letter catches the pouch, it will, of course, be appended. It will be noted that the Central Government, while deploring foreign interest in, is extremely sensitive to foreign opinion on, the subject. One must give credit to the foreign press corps in Chungking for playing a most constructive role in the present situation.

With respect to possible trips by foreigners to Yen-an:

(a) The President has sent a message to the Generalissimo through the War Department asking for permission to send military observers to North China and the North China fronts in order to obtain military information on Manchuria, to which the Generalissimo has replied that he is willing to allow American military observers to go anywhere in North China where there are Central Government troops and where Central Government authority extends, adding that there is no need for such observers to go to Yen-an as no information on Manchuria can be obtained there. Even this is a concession, as previously movements of our military people have been strictly limited. In any case, the President's request is regarded by our military people as the first move towards a flat request for permission to send military people to the Border areas.

(b) The War Department is about to ask outright for permission to send people to the Border areas, and the State Department is going to do likewise, so that it will probably take the form of a joint request.

2. *U. S. Army Expenditures in China*

(a) According to latest USAAF confidential estimates, current and planned projects will cost *CN\$6 billion per month for the next four months* for their execution. While no specific information is available for plans after June, it is known that the maintenance of operations at the level it is planned to reach in June will cost *CN\$3 billion per month* afterward, and it is assumed that the Army will not subsequently be content with merely maintaining operations at the level attained in June, but rather will be anxious to expand them.

*The objections to such heavy expenditures are obvious:*

(1) The Government note issue (monthly figures for which have been withheld from me since November) is now at least *CN\$5 billion per month* and may well be 6; while estimated Chinese Government expenditures for 1944 are *CN\$80 billion* and estimated revenue *CN\$35-40 billion*, it is more likely that expenditures will approximate *CN\$100 billion* and revenues *CN\$25 billion*, leaving a deficit of *CN\$75 billion*, which will inevitably be met by recourse to the printing press. Clearly USAAF expenditures in China which have to be financed by expansion of note issue will, if they attain the scale contemplated, lead to a doubling of the currently monthly expansion of note issue. The dislocation of the Chinese economy resulting from such a huge increase in the note circulation, from the consequent rise in prices, and from the diversion of labor and resources necessary to carry

out the projects will be of the gravest kind, to put it mildly. The U. S. Army, and therefore the United States Government, would be assuming a tremendous responsibility if they risked subjecting the Chinese economy to so severe a strain. It is certainly arguable whether the military advantages accruing from so large a volume of expenditures would more than counter-balance the damage to the Chinese economy, the possible collapse of the Chinese war effort resulting therefrom, and the general internal dislocation in China.

(2) From a *political* point of view, from our experience of Sino-American financial relations it is hardly likely that the Chinese would be content with merely ascribing the moral responsibility for such economic dislocation as would ensue to us. It is much more on the cards that they would say: "You got us into this mess. Now get us out of it." And we should have no pat answer to their claims. The political and financial responsibility for the economic reorganization of China is not one we can lightly assume. It must be remembered that firstly the present Chinese Government is a past master at seeking alibis and looking for someone other than itself to blame and to shoulder the burden which it should carry and that secondly the economic situation is already sufficiently critical without the imposition of so heavy an additional strain on it. In fact such large expenditures which in all probability would lead to an inevitable economic denouement would give the Central Government just the out it is looking for. Kung is already hollering to high heaven about the black market rate, and we don't have to have a vivid imagination to picture the squawks he could raise in the situation which would ensue.

Another point worth making in this context is that such expenditures would have political repercussions *within* China of an undesirable character.

(3) From a *military* point of view it is also arguable whether the results would be worth the cost. Many military experts in the China theater are skeptical as to whether the military outcome would be all that is expected. Naturally this is a matter of high military policy and the layman cannot see the problem in its grand global perspective. But many informed people believe that as the war draws closer to Japan, the Japanese will strengthen their inner bases and lines of communication and that as part of this policy they will make a determined effort to capture the whole of Eastern China in which if our Army projects go through we shall have built several most costly air bases. As most observers believe that the Japanese efforts in this direction would be successful, our expenditures on such bases would most probably have been in vain. To digress for a moment, there seems to be a considerable divergence of opinion in the highest quarters as to the appropriate objectives in the China theater. Chennault and his school believes that we should concentrate on continuing and expanding the kind of work the 14th Air Force is performing now. Stilwell believes that while we should maintain some air activity we should concentrate on building up Chinese ground forces in India and Yunnan and Kwangsi for an eventual offensive against Burma which may never materialize, it being no secret that for political reasons the British would much rather prefer a flanking movement against Thailand, Malaya, or the Dutch East Indies, with the conquest of Burma to be made subsequently with predominantly Empire forces. The Generalissimo while also desiring the maintenance of some air activity would prefer to see our efforts concentrated on the strengthening of the Chinese Army—for reasons of his own. Finally the Combined Chiefs of Staff in Washington would, judging from the fact that they are asking for the construction of extra-large bases in China, appear to be contemplating using China for the bombing of Japan proper; in fact I am confidentially informed that it is intended to bomb hydroelectric projects in Japan proper in order to hit Japanese war production. People of the Chennault school are inclined to believe that the results of the Combined Chiefs of Staff policy would be more showy than permanent.

(4) From the point on view of the American taxpayer, expenditures on such a large scale would entail enormous US\$ outlays which of course would be justifiable if they appreciably shortened the war and saved lives. While it is probable that we can attain a more reasonable adjustment for our *fapi* expenditures—it must be remembered that the President has made the commitment that we will pay for all US Army disbursements in China—than the Chinese have yet shown any willingness to accept, the Chinese are extremely hard bargainers, and the more we want to go through with such projects, the harder they will bargain.

The above is given as background material for problems in the discussion of which the Treasury will most certainly be involved. The position as it now stands is as follows: The Army in China has notified Washington of the scale of expenditures demanded by the operations now contemplated; it is awaiting Washington's reaction before taking up the matter with Kung, who, however, in an informal conversation with Acheson indicated that China would not like to see us spending more than CN\$3 billion per month. The Embassy has informed the State Department of the contemplated magnitude of expenditures and has advised it that the matter should be discussed by State, Treasury and War in consultation with the President before any final decision is reached. Therefore the matter may have already come to your attention before this letter reaches you.

(b) Acheson informs me that Kung in informal conversations is already taking a more reasonable line. No definite progress has yet been made, however. State has cabled the Embassy to reject the ludicrous Chinese offer that our expenditures in China be financed at 30 to 1. Kung has already asked Acheson that part of our outlays in China be financed by the sale of gold and US Gov. bonds in China for the account of both China and the US, and it is not unlikely that he will agree to similar sales of US currency here. Acheson has consulted me on the matter, and while he agrees that part of our payments to the Chinese Government should take the form of US Government bonds and gold shipped into China, he is not sure that such sales as the Chinese Government makes should be on joint account. While it is an open question, for myself I incline towards the view that there is more to be gained by having the sales on joint account for the following reasons:

1. If the sales in China of US bonds, gold, etc., are on joint account, we can reasonably ask that an American—presumably the Treasury Representative—should be on the Committee determining selling policy. His presence on the committee would ensure both greater efficiency and less "monkey business." That greater efficiency is an important consideration is attested to by the ultraconservative policy the Chinese Government is at present adopting with respect to gold sales. In the face of an extremely sharp rise in black market rates (see below) and a substantial general rise in prices since Chinese New Year, the Chinese Government is still putting only small amounts of gold on the market though the price of gold has approximately doubled since the beginning of the Year.

2. We would get a much better rate for our US\$ by participating in sales of gold, etc., on joint account than if we depended solely on an arrangement to get fapi we need from the Chinese Government at a rate which will necessarily undervalue the US\$.

(c) Last Tuesday the 15th Dr. Kung asked me to accompany him to Chengtu to inspect the construction of airports there. We left the same afternoon and found Acheson already there. Next morning we flew over two airfields where 50,000 men were at work (each) and stopped off at an airfield where 90,000 men were at work. As you can imagine, it was quite a spectacle. The immediate problem facing Kung and Acheson is the provision of sufficient fapi to enable work on the projects to continue. Kung agreed to rush CN\$½ a billion there immediately—on U. S. Army planes—and to have another CN\$½ a billion sent there in the near future. Chengtu provides a laboratory specimen of the impact of heavy military expenditures on a regional economy in China. Chengtu as you know is the center of one of the richest agricultural and most densely populated areas in China. Yet our Chengtu projects have already resulted in:

1. The dispossession of farmers from land needed for the airfields. Owing to the nature of the existing set-up many of the farmers have received no compensation whatsoever for the loss of their source of livelihood. The Chinese Government has undertaken to bear the cost of the land and has paid the landlords 50% of the land value, but as the majority of displaced farmers are tenants—the percentage of tenants to cultivators being higher in Szechuan than anywhere else in China—it didn't help the majority of the farmers any. In one place there was a riot and the local magistrate responsible for enforcing the farmers' dispossession was killed.

2. The conscription of 250,000 laborers withdrawn from agricultural labor and paid far below the prevailing rates of wages. Eventually it is expected that 300,000 laborers will be at work. The conscription of so large a labor force may interfere with the harvesting of winter crops—Chengtu has 3 crops a year—and more serious will interfere with the spring sowing if the

projects are not completed by May 1, a deadline which though desirable both from a military and an economic point of view may well be exceeded.

3. One month's work on the projects has already resulted in a substantial increase in prices in the Chengtu area. While we only spent one day in Chengtu and did not therefore have time to make more than a most cursory of surveys and while the data immediately available are none too reliable, it would appear that the price of rice—in the richest rice-bowl in China, mind you—has gone up from 50 to 100%, and other prices are going up accordingly. The price of construction materials has *trebled*; the American military officer in charge of construction work complained that as a result of the delays in our getting the necessary fapi from the Chinese Government we would have to pay a CN\$1 billion for construction material more than we would have otherwise had to, owing to the cornering of the market for such material. There is much hoarding of rice and other commodities, and we shall in any case have to pay through the nose.

The magnitude of the evil repercussions of our heavy expenditures is of course partly due to the inefficiency of the Chinese Government and of the existing set-up. On the other hand, it must be remembered as an extenuating circumstance that its political control has never been really effective in this particular area of Szechuan and that it must tread lightly in dealing with the Szechuan landlords and militarists, given its methods of operation and its political base. In fact Chang Chun, the Governor of Szechuan, is already unpopular in Chengtu because he symbolizes the Central Government. I should not be surprised if the Szechuan militarists are lukewarm at the prospect of the encroachments of the power of the Central Government on their preserves resulting from the construction of such large airports in their bailiwick and if they consequently manufacture "incidents" at the expense of American soldiers. Incidentally our military plans envisage the presence of 10,000 American soldiers in Chengtu by April 15, which of itself entails a sizeable economic burden on the area for grounds on which there is no need to expatriate. I hope to have the opportunity to visit Chengtu at greater leisure and to report more fully than my one day's trip allows me to. Dr. Kung may go to Kunming next week and I may have the chance to go along; if possible I shall also try to stop off in Kweilin. Chengtu, Kunming, and Kweilin are the chief centers of United States Army activity, and it would be worthwhile getting a first-hand impression of problems in which the Treasury has an immediate interest.

### 3. *The Black Market*

The black market rate for US\$ currency which was 88 on February 3 in Chungking leapt to 130 on February 7, 170 on February 11, at which level it remained until the beginning of this week. Today it is over 200; in Kunming where prior to this month the rate was 10–20 points higher than in Chungking the rate began to lag behind the Chungking rate when the first flurry occurred, the rate is now again more than 20 points higher than in Chungking. Some of the bidding up has undoubtedly been speculative but the trend is unmistakably upwards. The sharp turn can be attributed partly to the market's making an adjustment toward the real value of the US\$ particularly after the rise in general prices after Chinese New Year, partly to the rumor that the Government was going to change the official exchange rate to 100 to 1 as a result of American pressure and was about to take action to close the black market, and partly as a result of the influx of balances on account of Shanghai. With respect to the latter, as a result of the Japanese taking over of all available supplies of cotton in Shanghai, there have been heavy shipments of dyestuffs from occupied to Free China, payment for which has taken place in Free China, with a consequent intensification of the demand for US\$ currency in Free China.

Kung is now extremely worried about the black market and wants at least to bring existing rates down (rupees have risen commensurately with US\$). Accordingly he has approached Acheson about the possibility of importing US\$20 million of US currency in the immediate future for the Chinese Government in order to hit the black market. As the matter will come before the Treasury in any case, I may as well give my reactions here.

The black market rates undoubtedly have some effect on prices (and vice versa) though Kung tends to exaggerate them. Nevertheless, given the psychology of the moneyed classes here and the gravity of the economic situation, not to mention the Chinese tendency to blame as many things as possible on our Army expenditures and the incursions of our Government personnel into the

black market, it is only natural that the Chinese merchants will give some weight to the black market and that we should show our willingness to cooperate in Chinese Government attempts to control it. Therefore I recommend that we should accede to Kung's request to the extent of sending US\$10 million in currency out and agreeing to send another US\$10 million in currency out should the first US\$10 million prove insufficient to bring the market under some degree of control. My first tentative opinion is that US\$10 million will be sufficient, as the black market has probably not absorbed more than US\$5 million in the last two years though it must be admitted that the rate of absorption is increasing. Of course Kung's request weakens his bargaining position with respect to the current negotiations for an arrangement for U. S. Army expenditures.

You must be wondering why I have not sent a "weekly economic" cable for so long a time. The reason is simple. Whether by accident or design, the officials who usually give me the note circulation data have not come through; I shall wait another couple of days and if they still hold out shall send my cable anyhow. Similarly, have not yet answered your cable on the note reserve situation because to date have not received sufficiently comprehensive information for a reply; I hope to get out a cable on the matter before the end of the week and to enclose detailed data in my next letter to you.

As for the political implications of the loan, which I hope has become a dead issue though I fear the Generalissimo will raise it again at a convenient opportunity, *right now* its sole effect would be to strengthen the Kuomintang. I do not know whether I have already told you that Kung informed me that it was unlikely that he would go to America in the near future, adding that while there would be a point in his going to negotiate a loan, there are no other outstanding Sino-American financial questions which would justify his leaving China at this juncture.

With regard to the air bases, the Secretary's telegram undoubtedly helped a lot. Work on the Chengtu projects is going ahead at full steam (an inappropriate metaphor) but nothing has yet been done on the East China projects which were approved by the Generalissimo some time ago and on which the Combined Chiefs of Staff are equally keen (for the differences of opinion in military circles on how best to utilize the China Theater see my letter to Dr. White). The scale of contemplated Army expenditures is much greater than any of us had realized; again I refer you to my accompanying letter for a detailed discussion of the subject.

Have been too busy in the last few weeks—what with the financial negotiations on Army expenditures—to get down to the promised report on the currency situation in Occupied China, but shall turn to it at the first free opportunity. I, of course realize that the newer Government agencies in particular are especially petty when it comes to the release of information. But there is no reason why the State Department should not make available its reports on economic conditions in the occupied areas. (Incidentally if the Generalissimo allows us to send people into North China, as he has promised, we should be able to learn much more about financial conditions in North China and Manchuria.) By the way you ought to have no difficulty in obtaining the O. W. I. mimeographed publication of its monitoring of Japanese commercial radios which often contain some information on financial and currency conditions in Occupied China, Indo-China, Burma, etc. I must say that the Embassy here has cooperated with me 100% even though it is partly due to my personal relations with the Ambassador and George Atcheson. They have called me into every discussion of our Army financial negotiations with the Chinese and have shown me all the relevant cables and material. Naturally this cooperation is two-way, but it makes much more sense than do the trivial jurisdictional disputes which the newer Government agencies apparently go in for.

Am enclosing two articles from the Ta Kung Pao on the sale of gold. The first contains a most stupid proposal with respect to savings certificates which gave Kung the opportunity to send for the Chinese press on the same day and to make a strong blast against the Ta Kung Pao. (You know that the Ta Kung Pao is the organ of the Political Science Group and is particularly anti-Kung.) He denounced it not only for its proposal re savings certificates but also for its proposal to allow us to sell gold, saying that the latter is exactly what we want. Incidentally in an informal conversation with Acheson he to some extent reversed this position by suggesting that gold be sold on our joint account. The Ta Kung Pao did not want to give Kung face by making an editorial retraction, and it therefore asked an economist who has joined the Political Science Group to write a letter correcting its previous article. Last Saturday Kung had an inter-

view with the foreign press corps in which he made the astonishing statement that fapi, would appreciate to 10 U. S. cents after the war.

Information reaches me from a reliable source that the Generalissimo has given orders for an offensive against Ichang in March or April. If the offensive is successful it would give a great boost to Chinese morale and would also have beneficial economic repercussions as Ichang is a key transportation center through which all goods coming from Hunan used to pass. Its possession by the Japanese makes necessary lengthy and expensive detours. However, Ichang is easily defensible, being a natural strong point to which the easiest access is through the Yangtze Gorges. Now for the latest news and rumors. Wei-Tao-ming is it appears going back to America after all. China Defense Supplies which has previously been run by T. V. is, it is rumored going to be taken over by Central Trust with a resultant further concentration of power in the hands of the Kung group. K. P. Chen by the way is on much better terms with Kung that he was last year. This is merely a straw in the wind indicating the victory of the Kung group. The Generalissimo fired the Vice-Minister of Information for writing articles in the Ta Kung Pao instead of in the Kuomintang daily.

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#### EXHIBIT No. 324

[Pp. 203-209, vol. 684]

DECEMBER 15, 1943.

Letter II (New Series).

DEAR DR. WHITE: I think I have already written that the Generalissimo was very pleased with the results of the Cairo Conference, the reasons for his satisfaction being firstly that his political requests were granted and secondly that the international prestige he received gave his regime a badly needed booster. His wife, who of course understands Western politics much better than he, was not so pleased, as China's military and financial demands were turned down. I don't know whether you have already been informed, but the Generalissimo asked the President for a loan of US\$1 billion and the reply was that it would be impossible to get Congressional approval for such a loan.

\* \* \* \* \*

*The weakness of the Central Government is more profound than is generally realized at home.*

(a) There has been no improvement in the relations between the Kuomintang and the opposition. Perhaps the best way to sum up the position is that both sides are preserving armed neutrality and keeping their powder dry. Neither has made any concessions to the other, the Kuomintang is continuing its military and political preparations for civil war, and while the immediate tension slackened after the 11th plenary session of the Central Committee of the Kuomintang in September, they are still as far apart as ever. It appears that the Kuomintang mobilized for civil war this summer and that the Generalissimo was only dissuaded from going ahead by fear of international public opinion and by the unanimity of his generals in asserting that it would require a major campaign, as the Chinese Communists were much stronger than Chungking had believed and, though not wanting a civil war, were no longer afraid of its military and political outcome, while the Central Government troops were much weaker. There are a lot of reports here to the effect that the Communists have become very powerful throughout North China and even in Central China behind the Japanese lines, which makes the Central Government all the more nervous as to possible developments after the enemy is expelled but at the same time deters it from hasty action. Nevertheless, the danger of civil war remains grave, nor can any significant improvement be expected at the moment. By the way, no one here takes seriously the movement for a Constitutional Convention one year after the War; the news was timed to coincide with the announcement of the departure of the Chinese Goodwill Mission for England in order to serve as a democratic gesture and selling point, but actually the same people who were "elected" in 1935 to serve on the Constitutional Convention then are to function again, and the Convention will not even have the power to submit amendments to the Draft Constitution which will be put before it for consideration.

(b) The main danger confronting the Central Government is not economic collapse but political disintegration. You may remember that I stressed this

point over a year ago. The danger is becoming increasingly more serious. Right now the Szechuan militarists are extremely restive, and it is reported that the recent Hunan campaign was undertaken partly to stave off a Szechuan revolt which might have obtained some popular support as a result of dissatisfaction with the land tax and conscription and that the Generalissimo and Madame Chiang have even become jittery about their own personal safety.

(c) Contributing to and reflecting the process of political disintegration, the internal conflicts and dissensions within the Kuomintang have become sharper. Thus the rivalries between Chiang's two leading generals, Ho Ying-chin and Chen Cheng (the latter who is considered by informed foreigners to be China's best field commander has recently developed a diplomatic illness), between Kung and Soong, and between the C. C. group and other equally Fascist factions within the Kuomintang, have all become more acute.

(d) The Government has lost any interest it ever had in doing anything effective to fight the Japanese, whose defeat it is only too glad to leave in our lap; it recognizes that the defeat of the Japs is inevitable and therefore there is no danger of capitulation, but at the same time it won't do anything to hasten that defeat. Consequently most American Government officials I come in contact with are becoming increasingly critical not only of the Central Government but also of our Chinese policy, which has served to strengthen the Central Government without obtaining anything in return. It is true that one of the Central Government's few selling points is United States friendship and its ability to extract handouts from us at critical junctures, and it is all too true that we have very little to show for either our friendship or our handouts (witness our difficulty in getting a reasonable arrangement in connection with our expenditures in China). It is felt that it is necessary for us to get tough with Chiang if we are to get any results and that there is no point in eulogizing him to the skies and in being gratuitously generous to him. Foreign praise of him does more harm than good, while the more we give him the more he expects and the less he is willing to contribute to the war effort or to mend his ways. Americans in Chungking heaved a unanimous sigh of relief when they heard that the President had made no financial commitment to Chiang at Cairo.

(e) There appears to be no sign or reasonable prospect of any real change for the better in the Central Government's internal policy. Its intention remains to hold on to power without making any attempt at improving administrative efficiency, widening the base of its support, or introducing any reforms.

Summing up, what should be emphasized is that *the Central Government is unstable, that its instability is increasing, that it is making no serious attempt to rectify its inherent instability—if anything the contrary, that Chiang no longer fulfills the function of being the main unifying factor in China, and that American policy vis-a-vis China which appears to be postulated on the assumption that the Government is stable and strong should be based on the facts.*

I have been picking up some dope on Lend-Lease. My information with respect to India is that unnecessary wastage is occurring as a result of the inefficiency and incompetence of the responsible civilian agencies of the Indian Government in placing orders and utilizing material received. Thus, the Tata Steel Company gave the responsible agencies specifications for a much needed blast furnace and roller, but the latter decided to go Tata one better and ordered a much bigger furnace and roller which Tata can't use. The furnace and roller have arrived in India but for all practical purposes are so much scrap. Yet another example is provided by our Lend-Lease man in Calcutta who was approached by the Indian railroads for certain badly needed railway supplies. Our man informed the Indian railroad representatives that the Indian Government had received on Lend-Lease a sufficient amount of the goods in question to last for ten years. Though the railroad representatives were incredulous, it transpired that our man was stating the facts and that the Indian Government had simply failed to inform the railroads of the receipt and availability of the supplies they were looking for.

As for China, the Lend-Lease men here are in the process of investigating the uses to which Lend-Lease supplies have been put in China, and I hope to have something to report in the near future. Their main find so far concerns Lend-Lease and Universal Trading Corporation material and equipment destined for China but now in India. Apparently most of it is now in Assam, which has a notorious climate in which goods rot very easily. Nevertheless the material is inadequately stored and inventoried. Much of the material—some of which has been lying there for over a year—will have to be scrapped, and most of the rest will have to be salvaged and repacked. The following example of inefficient

inventorying was cited to me; the Colonel in charge of the construction of the Ledo road did not know that some equipment he desperately needed was stored only 20 miles away. The main trouble seems to be insufficient personnel, and the blame cannot be laid at the door of the Chinese. Where the Chinese are unrealistic is in persisting in having stuff shipped out from America when there is more in Assam than can be moved into China, given present transportation facilities.

It is clear that the British are stalling about giving the necessary 30 days' notice for the termination of the 1941 Agreement. The reason is that they wish to have the status of the Chinese Government's debt to them under the 1939 Sino-British agreement clarified before agreeing to winding everything up. The result is that as the Board decided that the Sino-American and Sino-British agreements of 1941 should be terminated as of the same date I have to wait until the British take action before being able to hand in my resignation as of a given date. You will be interested to learn that Ambassador Gauss wants me to be Financial Attache; while such an arrangement would have many advantages and would in no way interfere with my taking trips to India for example, it is for you to decide whether it is desirable from the Treasury's point of view.

I had lunch with T. V. Soong last week and he asked to be remembered to Mrs. White and yourself; he mentioned that he found a book your wife sent to his children so engrossing that he insisted on reading it first himself. He is still in the doghouse and living in comparative isolation, though he is expected to leave for America soon.

With best wishes for a Merry Xmas and Happy New Year to your wife and family and yourself,

Yours sincerely,

(signed) SOL ADLER.

EXHIBIT No. 325

[P. 279, vol. 696]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,

February 12, 1944.

To: Mrs. McHugh.

The Secretary would be interested in reading the portions of this letter marked in red pencil \* and also the appended copy of memorandum prepared for General Stilwell by his Political Adviser, a Mr. Davies, who, according to our information, is a very good man.

H. D. W.

Mr. White, Branch 2058, Room 214½

[Pp. 280-287, vol. 696]

[Declassified: Treas. ltr. 11/3/55]

JANUARY 26, 1943.

Letter IV.

DEAR MR. WHITE, There are a few interesting points to report this week.

1. In the message from the President to the Generalissimo notifying him that Stilwell and Gauss have been authorized to negotiate a financial arrangement covering Army expenditures in China, the President adds that it might be a good idea for Kung to visit the United States. This, I am sure, will be construed as an invitation by the Chinese and will be acted on accordingly. *The Generalissimo will undoubtedly expect Kung to get some kind of handout from his visit, which the Generalissimo would otherwise deem a failure. Both—and especially the Generalissimo—are behind the times on the American political scene and believe, I think sincerely, that the American people and Congress are anxious to give China assistance in whatever form, financial, economic, or military, China requests it.* (Cf. the last paragraph of Kung's letter enclosed herewith.) Neither realizes the bad feeling that has been created by the refusal to come to a satisfactory arrangement for handling our expenditures in China, and neither is aware of the widespread feeling in American informed circles that

\*Here shown in italics.

China has not been pulling her weight militarily. The inevitable disillusionment may affect the degree of China's collaboration in the forthcoming monetary negotiations. But this in itself is not a prime consideration if the cooperation of the other major powers is forthcoming, and, moreover, there is much to be said for the view that the best way to get results is to get tough. By the way, it should be unnecessary for me to point out that my usefulness to the Treasury in China would be impaired should my views be quoted to the Chinese representatives or visitors in Washington.

2. Kung told me yesterday that T. L. Soong had just returned and had informed him that the Secretary was still very friendly to China and realized the need for maintaining the official rate. I am sure that T. L. either deliberately or unintentionally misrepresented the Secretary's views, but Kung believes him. T. L. added that your attitude differed from the Secretary's in being quite hard. T. L. differs in no way from other Chinese officials who tell the bigwigs not the truth but what the bigwigs would like to believe is the truth.

3. There has been no let-up in the internal tension; if anything, the reverse. The censorship has been tightened and military and political preparations are proceeding apace.

4. I am enclosing a copy of Kung's message to the Secretary in full so that you may have the original text for reference undistorted by double paraphrasing. There is no need for me to rebut the argumentation here, though it may be worthwhile to list a few errors of facts.

a. The figure of CN\$10 billion which Kung gives as the total cost of work done and now in process borne by the Chinese Government includes CN\$4 billion for the Chengtu airfields which our Army people assure me we have undertaken to pay, and also expenditures for the subsistence of our Army which the Army says it will pay for as soon as the bill is presented. This makes the assertion in the last sentence in the penultimate paragraph of the letter doubly ridiculous.

b. The reference to the Stabilization Board is as you know a dubious technicality.

c. The figure of 500,000 workers for the Chengtu project given in the fifth paragraph is incorrect. The Army tells me that at present 200,000 workers are engaged on the project and that an additional 100,000 workers will eventually be engaged. It is more than likely that the Ministry of Communications which is handling the projects gave Kung a padded list in order to get increased appropriations, presumably to be handled in a variety of ways. Nevertheless, it is true that the projects are having a serious impact on prices in the Chengtu area and that the recruitment of so large a labor force may impair agricultural production, a probability to which Kung does not call attention. I am told that the people in the Chengtu area are in no way enthusiastic about the projects, a reaction which must be ascribed as much to the Chinese Government's inefficiency as to anything else. In the first place land in one of the most fertile areas in China is being requisitioned for non-agricultural uses, in the second the magistrates are not paying the displaced farmers for their land and they find it hard to content themselves with vague promises of payment in the future. In the third the area is being burdened with the maintenance of a large outside labor force at the same time that other areas are being drained of the agricultural labor necessary for cultivation and harvesting. The fact that the Chengtu area is a focal point of political discontent on the part of the powerful Szechuan landlords and militarists must of necessity be taken into consideration in assessing the total situation.

d. The reference to rupees in the seventh paragraph doesn't make any sense at all as it now stands, as China is the one country in the world where a sterling area currency is at a premium over the dollar in the black market. But one must charitably put this down to faulty exposition, as what Kung apparently had in mind was that *Chinese* hoarders find it more profitable to obtain rupees indirectly by first purchasing U. S. currency to be exchanged for rupees in India than to obtain rupees directly in the black market in China. Kung also ignores the fact that Chinese in *Free China* buy U. S. currency to hoard. It should be noted that the Chinese Government has at least tacitly connived at the "illegal" activities referred to in the last sentence of the same paragraph. It has never asked us to stop American soldiers' activities in the black market and Kung himself informed the American Ambassador—in an informal way of course—that he preferred to see our government organizations selling U. S. currency in the black market

than to give them a rate which we consider reasonable. In the former connection you may recall that Kung refused to do anything effective when we asked him to stop the sale of savings certificates to American soldiers.

For the rest I understand that the Generalissimo participated in the drafting of the letter which reflects the level of his thinking both on economics and politics. *The most astonishing thing in the whole letter is the claim that China has already repaid the US\$1½ billion loan. No point would appear to be served in answering the letter unless the answer is a clear and unmistakable further step in the process of getting tough, or otherwise it would only result in an endless and useless back and forth. There can be little doubt but that the Secretary's message to Kung has already had a beneficial effect.*

5. I am also enclosing a confidential memo on Chiang Kai-shek and China written by the Political Advisor to General Stilwell. It may be of some interest to the Secretary.

6. For your information the Ambassador has asked me to participate informally in the Army and State Department discussions of the arrangements they are to offer to the Chinese as the starting point for negotiations re a more satisfactory procedure for American expenditures in China. My participation is of course entirely unofficial, as it is only the Embassy and the Army which together will make official representations to the Chinese Government and the Treasury is in no way involved. *Some progress has been made to the extent that the American Government agencies involved are now for the first time acting in unison and speaking in one voice, that the President has endorsed their attempt to procure a more reasonable arrangement and that he has shown lack of receptivity to what Americans here call the Gimme which characterizes the Chinese view of the American role.* (The Army nickname for the United States is Uncle Sugar.) But the negotiations are likely to prove protracted and laborious before any significant results are obtained. As indicated in my last letter, the bargaining position of the Army will inevitably be adversely affected if it has to stick to the letter of its instructions that *nothing* must be allowed to interfere with the progress of the high priority projects.

7. Thomas informs me that London is still in touch with Washington about the termination of the 1941 agreements. There is nothing to be gained by continuing to maintain the Board in a state of suspended inanimation, and I strongly recommend that the Board be buried as speedily as possible.

*There is a profound division of opinion among American military experts here as to operations in this theater. One school believes we should concentrate entirely on air operations while the other school feels that some attention be paid to training and equipping Chinese divisions for what in its opinion will constitute the decisive struggle here, namely land operations against the Japanese. Strangely enough neither school is particularly enthusiastic about the high priority projects.*

With kindest regards to your wife and yourself,

Yours sincerely,

Sol Adler (Signed).

The latest rumor about T. V. is that he will vacate the Foreign Ministry.

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[Declassified per Ralph Clough (CA)]

#### CHIANG KAI-SHEK AND CHINA

The Generalissimo is probably the only Chinese who shares the popular American conception that Chiang Kai-shek is China. This congenial fiction is worth examining.

Japan's attack caught China in midpassage between semifeudalism and modern statehood. External pressure in the form of Japanese aggression imposed a temporary unity on the various elements struggling to determine whether China was to develop along democratic or authoritarian lines. Public pressure compelled Chiang, who was the strongest of these elements, to become the symbol of a unified national will. The internal conflict was suspended.

This situation continued so long as the Japanese attempted to bring China to its knees by military means. But after the fall of Hankow in 1938, the war entered a period of military stagnation which has continued until now. Japan adopted instead a shrewd policy of political and economic offensives designed to bring about Chinese disintegration and collapse. Confronted with this new

Japanese tactic, which promised him some respite at the expense of other Chinese elements, Chiang chose to abandon Chinese unity and retrogressed to his prewar position as a Chinese militarist seeking to dominate rather than unify and lead.

The Generalissimo seeks to dominate because he has no appreciation of what genuine democracy means. His philosophy is the unintegrated product of his limited intelligence, his Japanese military education, his former close contact with German military advisors, his alliance with the usurious banker-landlord class, and his reversion to the sterile maxims of the Chinese classics. The primitive power complex which was his original motivation has developed into a bigoted conviction that China can realize its destiny only under his preceptorship.

Chiang's technique of domination is adroit political manipulation of the various elements of the Chinese political scene and, subsidiarily, employment of a gangster secret police headed by Tai Li. He is the leader of the Kuomintang, which he would wish to make his totalitarian party. But the Kuomintang, once an expression of genuine nationalist feeling, is now an uncertain equilibrium of decadent, competing factions, with neither dynamic principles nor a popular base. Such control as Chiang has over the Kuomintang is achieved through playing the factions within the party one against the other.

Likewise in the larger national scene Chiang, often utilizing the Kuomintang, manipulates a political balance among the residual warlords, dissident groups in his own army, provincial cliques, the so-called "Communists," minor parties and even the Japanese-created puppets. The unorganized liberals and intellectuals are a potential, not an immediate threat.

Chiang's paramourty is, therefore, insecure and unsound. His reluctance to expend military strength against Japan, his anxious preoccupation with securing domestic supremacy, his suspicion of everyone around him and his increasing emotional instability betray a subconscious realization of this.

Because his Kuomintang Government has no popular base, because the centrifugal forces in China are growing under prolonged economic strain and because the Soviet Union may join the war against Japan and enter Manchuria and North China, the Generalissimo faces next year the gravest crisis of his career.

What form and course the crisis will take is impossible to predict. Certain contributory factors, however, are clear. One is the increasingly independent attitude of the Chinese Communists, who now say that they no longer fear Chungking. "If Chiang wants to commit suicide on us, that suits us." Another is the accelerating economic disintegration. A third is the growing restiveness of certain provincial and military factions. Any one or a combination of these may be sufficient to accomplish Chiang's downfall.

By reversing his policy of 16 years' standing, reforming the Kuomintang and taking the lead in a genuine united front, Chiang could surely survive the crisis. But he is not only personally incapable of this, he is a hostage of the corrupt forces he manipulates.

In this uncertain situation we should avoid committing ourselves unalterably to Chiang. We should be ready during or after the War to adjust ourselves to possible realignments in China. We should wish, for example, to avoid finding ourselves at the close of the War backing a coalition of Chiang's Kuomintang and the degenerate puppets against a democratic coalition commanding Russian sympathy.

The adoption of a more realistic policy toward Chiang does not mean abandonment of our objectives (1) to capitalize during the War on China's position on the Japanese flank, and (2) to build up after the War a strong and independent China. On the contrary, it will mean that we shall be more likely to achieve these objectives. A realistic policy toward Chiang would be based on (1) recognition by us that the Generalissimo is highly susceptible to firm coordinated American pressure, (2) stern bargaining (in consultation with American representatives in China), and (3) readiness to support a strong new coalition offering cooperation mutually more beneficial to China and the United States.

December 31, 1943.

EXHIBIT No. 326

[P. 155, vol. 819]

TREASURY DEPARTMENT,  
DIVISION OF MONETARY RESEARCH,  
March 8, 1945.

To: Secretary Morgenthau.

A letter from Mr. Adler—which may interest you.

H. D. W.

Mr. White, Branch 2058, Room 214½

[Pp. 156–158, vol. 819]

AMERICAN EMBASSY,  
Chungking, February 14, 1945.

Letter V

DEAR MR. WHITE: This letter and the enclosed memorandum are in the nature of a postscript to my letter No. IV. The memorandum which of course is strictly confidential is largely self-explanatory.

The Generalissimo obviously believes that China's position has been strengthened as a result of the Yalta Conference and the plans for the San Francisco Conference. While friends of China welcome the recognition of the Chinese given at Bretton Woods, Dumbarton Oaks, and the forthcoming San Francisco Conference, they cannot but regret that these conferences allow the Generalissimo to use the face given China internationally for the purpose of trying to strengthen himself internally. It is clear of course that the Generalissimo is misreading the international situation and is ignoring what everyone else recognizes—Russia's strength. The key to his increased intransigence in the current negotiations is his desire to stall until the war in Europe is over, coupled with his belief that China's international face can be exploited internally and that Russia is not going to enter the Far Eastern War. On this latter point he is in a small minority in Chinese official circles. If he turns out to be wrong on this point, his miscalculation may well prove calamitous for him.

It is astonishing that the Generalissimo should feel stronger at a time when it is obvious to everybody else that he is becoming weaker. This tends to reinforce the impression that it is going to be an almost impossible job to save him. The application of the Freudian concept of the "death-wish" to his recent conduct is not inept. Dr. Sun Fo explains the Generalissimo's misreading of the internal strength of the Communists and of the international situation on the grounds that the Generalissimo's closest advisors don't tell him the facts as they are but what they think he wants to hear. In any case, if the Generalissimo sticks to his present course, and if we stick to our present policy of supporting him unconditionally a la Hurley, we will end up by finding that we are backing a losing horse. The Generalissimo's intransigence is self-defeating. For he is growing weaker while the democratic elements and the Communists are growing stronger. Therefore the longer he defers making concessions to them, the greater the concessions he will have to make. But he doesn't seem to realize this elementary fact.

The Generalissimo's intransigence is also going to make it harder for Hurley to claim any success for the sorry outcome of the negotiations. But Hurley may nevertheless do so, even though the facts as recorded in the enclosed memo completely belie such claims.

Finally, it should not be necessary to add that the course of the negotiations confirms what we already knew, namely that the Generalissimo never had any serious intention of arriving at a settlement as long as he was sure of the continuance of American support. This latter is the crux of the whole matter. Unless we show the Generalissimo in unmistakable fashion that our support of him is not unconditional, he will not budge. It is in our power to exert the initiative which will bring about a change for the better in the Chinese internal situation. Pious statements are not enough. We must convince the Generalissimo that we mean business. It is only because he believes—and apparently rightly—that we don't that he was able to get away with the recall of Stilwell and with his present line.

With kindest regards,

Yours sincerely,

(signed) SOL ADLER.

P. S.—Hurley and Wedemeyer are leaving for home in the next few days. En route they are stopping off in the Pacific for consultation with Nimitz. As far as

can be gathered from the Yalta communique and from the statement in the press (which claimed to be officially inspired) to the effect that U. S. troops would only stay 1 year in Germany, the Morgenthau plan hasn't done at all badly.

[Pp. 159-161]

FEBRUARY 14, 1945.  
No. 1.

Subject: Failure of Kuomintang-Communist Negotiations.  
To: Commanding General, USF-CT  
From: Political Advisor

According to Chou En-lai, the Kuomintang-Communist negotiations have again resulted in an impasse. At a conference on February 13, with Ambassador Hurley, Wang Shih-chieh and Chou En-lai present, the Generalissimo said that he would not agree to anything except a "political consultative committee." This would be composed of members of the various parties but would have no powers or position in the government.

This empty and disappointing proposal is unacceptable to all of the opposition groups. All it permits is further talk, without commitments or limitation of the power of the Kuomintang. It is irreconcilably far from the Communist proposal of an inter-Party Conference with power to reorganize the Government and prepare for constitutional government. It is even a step backward from the type of inter-Party organ which had been the basis for discussion by the Kuomintang representatives at a ludicrously misnamed "war cabinet."

In view of this debacle, Chou is planning to return to Yen-an as soon as possible. He seems to think that the Communists will demonstrate their good intentions by agreeing to participate in this Kuomintang-proposed Committee, despite its futility. He would not commit himself regarding plans to proceed with setting up a Federative Council of all the Communist area governments. He gave the impression that the Communists were quite willing to wait for another period.

Before leaving Chungking, Chou will issue a statement setting forth the Communist position. A joint statement by the Communists, League of Democratic Parties and democratic wing of the Kuomintang (headed by Sun Fo) is also under consideration. These three groups have maintained close liaison and unity throughout, although the League and democratic wing were excluded from the actual negotiations.

Chou believes that Chiang does not expect Russian participation in the Far Eastern war (there is also a local rumor that Soong wants to go to Russia to try to settle outstanding and potential problems), that Chiang is confident of continued American support as indicated by the statements and actions of the Ambassador, that he has been strongly encouraged by the announcement of the Five Power Conference in April, and that he will therefore continue to stall. If Chiang's international position remains strong, the Kuomintang will then, through its Party Congress in May, proceed to offer "democracy" to the country on its own terms.

Chou seemed anything but depressed. He believes that the new breakdown of the negotiations has clarified the main issue, revealing Chiang's determination to give no concessions which can limit his power or substantially change the status quo. Chou feels that the onus for the breakdown lies clearly on the Kuomintang, even in the eyes of the Ambassador. And his optimism reflects the Communist confidence in the future.

Chou refused to sign a joint statement (which he believes to have been prepared by the Ambassador with revisions by T. V.) which tried to strike an optimistic note regarding the negotiations. He said that it was entirely favorable to the Kuomintang and did not present the true facts.

An interesting footnote is that on February 12, Hollington Tong urged a reliable and very well known American correspondent to include in a despatch the statement that the negotiations were proceeding well and were likely to succeed.

JOHN S. SERVICE.

(Whereupon, at 12 noon, the subcommittee adjourned.)

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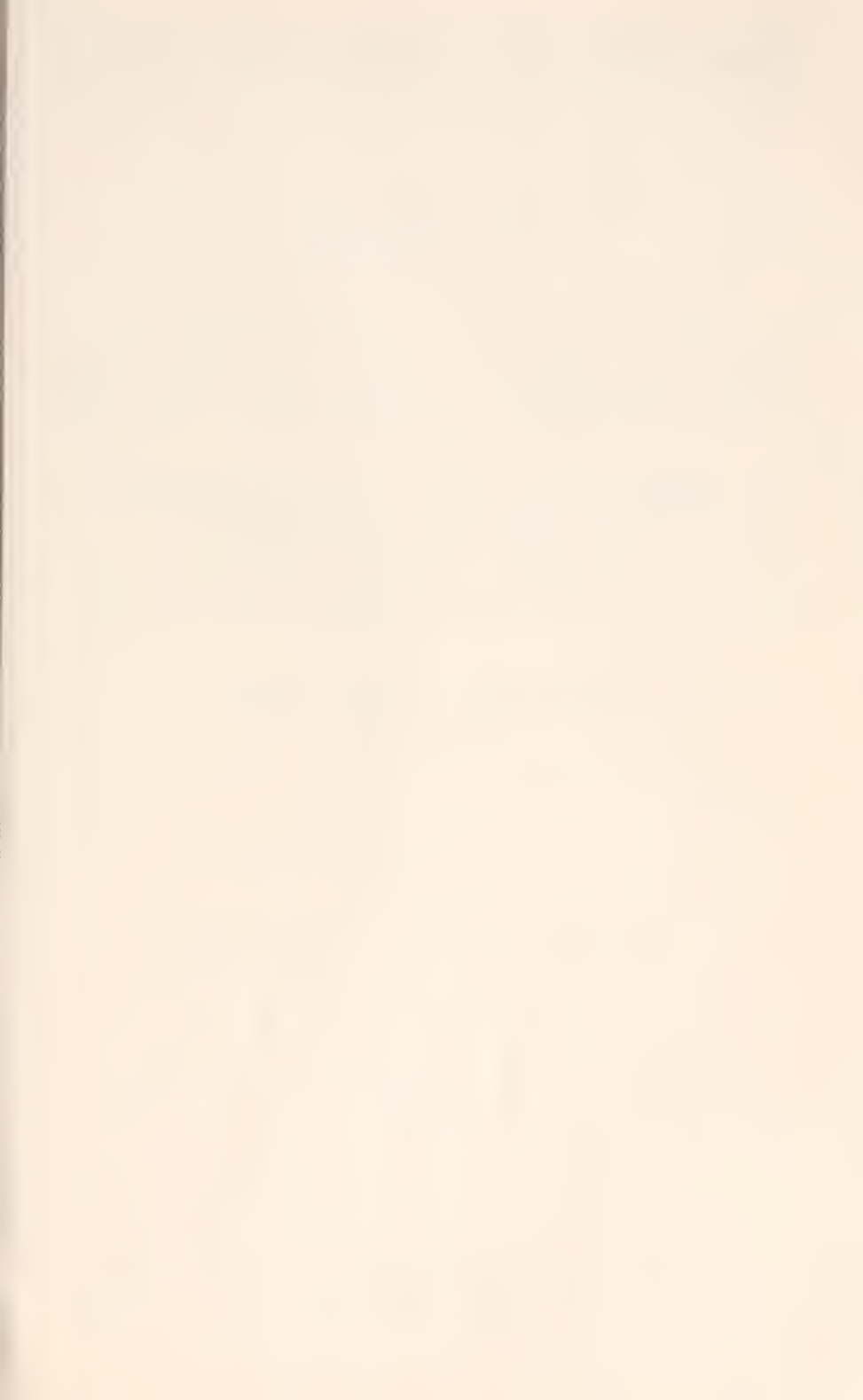
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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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JULY 13, 1956

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PART 35

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### SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF THE INTERNAL SECURITY ACT AND OTHER INTERNAL SECURITY LAWS

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BENJAMIN MANDEL, *Director of Research*

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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FRIDAY, JULY 13, 1956

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION  
OF THE INTERNAL SECURITY ACT AND OTHER  
INTERNAL SECURITY LAWS, OF THE  
COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 12 a. m., in room 457, Senate Office Building, Senator John Marshall Butler presiding.

Present: Senator Butler.

Also present: Robert Morris, chief counsel; William A. Rusher, administrative counsel; Benjamin Mandel, director of research; and Jonathan Mitchell, temporary consultant.

Senator BUTLER. The subcommittee will come to order.

Mr. MORRIS. Dr. Young, will you come forward, please?

Senator BUTLER. Doctor, will you hold up your right hand.

Do you solemnly promise and declare that the evidence you give the Internal Security Subcommittee, a Subcommittee of the Judiciary Committee of the United States Senate, will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. YOUNG. I do.

## TESTIMONY OF DR. ARTHUR N. YOUNG, SAN MARINO, CALIF.

Senator BUTLER. The witness is sworn.

Mr. MORRIS. Senator, the hearing this morning is being held by the Senate Internal Security Subcommittee in connection with a study being made by that subcommittee into the Morgenthau Diaries, and hearing on the general subject of Soviet activity in the United States.

Mr. Young is appearing today at the request of the subcommittee. He has been a financial adviser, and was head of the financial mission to Saudi Arabia in 1951 and 1952. He has been, in the 'twenties, an economic adviser to the State Department and also served as financial advisor to the Chinese Government from 1929 to 1946.

He lived through this particular period that he is going to testify about in his capacity as a person who was actually on the spot. I think he will tell us that during the course of his testimony today.

Senator BUTLER. Mr. Young, we are delighted to have you here, sir, and you may proceed with your testimony.

Mr. YOUNG. Thank you very much, Senator. It might be helpful to the committee if I should give a little background in connection with this matter.

Senator BUTLER. Do it the way you want to do it. Proceed in the manner you think is best suited to bring out the story.

Mr. YOUNG. When the Nationalist Government became the Government of China in 1928, they faced a chaotic situation. The currency was in a very confused state, with a variety of silver, copper, and paper money which bore no relation to each other. The revenues had been so inadequate that no previous Peiping government could survive for very long. The debts were in default to a very large extent.

When the Nationalist Government took over, they set out on a program of financial rehabilitation. During the period from 1928 to 1937 they succeeded in unifying and stabilizing the currency. They developed quite promptly very large revenues, sources of revenue, from the customs and internal revenue with the result that the Government had a large degree of financial stability by 1937. Also the greater part of these defaulted debts had been settled.

In fact, the situation was so promising in 1937 that China's economy was going ahead by leaps and bounds. Foreign capital was coming into the country. The outlook was really very good.

I agree with the appraisal made by former Ambassador Dr. Hu Shih, Chinese Ambassador in Washington, who said that, during this period in the 1930's, China had the best government it has ever had. I think one of the reasons why the Japanese attacked in 1937 was that China was getting ahead so rapidly that they had reached the conclusion that it was now or never.

The result of the Japanese attack was, of course, to disrupt, to tear down a great deal of good work which the Nationalist Government had done during this period.

Senator BUTLER. Doctor, who was the head of the Nationalist Government at that time?

Mr. YOUNG. Generalissimo Chiang Kai-shek was the head of that.

Senator BUTLER. During the whole period you are testifying to?

Mr. YOUNG. During the whole period, and the Ministers of Finance were Dr. T. V. Soong, Dr. H. K. Soong, and Dr. O. K. Yui.

When the war came, the Japanese rapidly overran the principal cities and destroyed the sources of revenue. They also, of course, drove the Chinese out of the areas where the most modern developments had taken place, and it was not possible at that time for the Chinese Government to derive adequate revenues from the sources at its command.

The Chinese Government, therefore, was forced to rely on paper money, inflation, as the main financial resource available for the purpose of fighting the war.

Mr. MORRIS. Dr. Young, can you tell us of the background situation that existed in China in 1941? What position did you have in 1941?

Mr. YOUNG. Well, to lead up to that, we had a lot of trouble due to the currency—

Mr. MORRIS. What position did you have in 1941?

Mr. YOUNG. I was still financial adviser. I was financial adviser during the whole period from 1929 to 1946.

The currency had a great many difficulties at that period and we sold the reserves that we had, as far as they could be spared from what was needed for the purchase of munitions. But when that resource was unavailable, the exchange slumped and we adopted, after the

rates had settled down, a policy of tending to stabilize the market to maintain an orderly market.

For example, when the Japanese captured Canton and Hankow in October 1938, there would have been a very severe collapse in the currency if we had not gone in there and supported the currency by selling foreign exchange. We put out at that time \$16 million in selling exchange. We maintained it stable and later the speculators decided the situation was not going to pot. They had to cover and we got nearly all that money back. We tried to maintain stability, and sold through open-market operations in order to preserve as much confidence as possible, because whenever the exchange shot up, right away that was damaging to confidence and prices tended to rise.

We conducted that operation from the middle of 1938, that stabilization operation, trying to maintain orderly markets, right into the middle of 1941.

Now, when I came to the United States in 1939 on personal matters, I received a telegram asking me to take up certain business here in Washington and in New York for the Chinese Government, and at that time I took occasion to call on both the State Department and the Treasury Department. I talked with Dr. Hornbeck and also with Secretary Hull in the State Department and pointed out that China, because of its difficult financial situation, was in fully as much danger from financial disintegration as it was from the Japanese, from the war.

I also said the same thing to Secretary Morgenthau and to Mr. Harry White. I explained to all of these people that it was very urgent that China should have additional financial resources for the purpose of maintaining stability of the currency, and that was the policy that was carried out, that was followed up by Dr. T. V. Soong when he came here in 1940, and I came back from China with him to help conduct certain negotiations. He was seeking financial help because of the great need in China to try to hold that situation together financially. And that led up to this stabilization matter of 1941.

Mr. MORRIS. Now, was Dr. Ludwig Rajchman a party to these negotiations?

Mr. YOUNG. Well, when Dr. Soong came over here, Dr. Rajchman was advising him and Dr. Rajchman participated later in certain negotiations with the Treasury.

Mr. MORRIS. Is that R-a-c-k-m-a-n?

Mr. YOUNG. R-a-j-c-h-m-a-n. And he was brought into that thing. Dr. Soong and I were preparing a very important memorandum to give to the American Government, the State Department, and the Treasury, describing the Chinese financial situation, telling what the assets and resources were, bank assets and currency, and what the budget was, and how the stabilization, we thought, should be conducted. And we had that document drafted and we were going over it, I remember, one day in New York.

Dr. Rajchman was there and Dr. Rajchman brought in Mr. Frederick V. Field at that point. Dr. Soong, of course, didn't know Mr. Field. Neither did I. But Dr. Rajchman——

Mr. MORRIS. May I break in at that point?

Senator Butler, the last part of the witness' testimony is particularly pertinent to the present inquiry. Dr. Ludwig Rajchman's name

frequently turned up in the course of our hearings on the Institute of Pacific Relations. At that time he was an adviser to the Chinese Government; was he not?

Mr. YOUNG. He was.

Mr. MORRIS. Since that time Mr. Rajchman has really made a stand apparent to everybody. I think that would be reflected by the fact that he is now a Polish Communist delegate to UNICEF.

Frederick V. Field, who was called in, according to the testimony of this witness, as an adviser to Mr. Rajchman, has been shown by the Internal Security Subcommittee to have been a Communist during the year 1941, which covered the period that the witness is now talking about. In fact, that was one of the conclusions that was made by the Internal Security Subcommittee in connection with the latter.

Mr. YOUNG. May I say that this incident I am referring to took place in the month of July 1940, soon after Dr. Soong came to this country. And I came with him.

Mr. MORRIS. See if I understand the parties here. Dr. Rajchman was officially an adviser to the Chinese Government.

Mr. YOUNG. Yes.

Mr. MORRIS. And in that connection Rajchman was advising the Chinese Government and you occupied at the time what position?

Mr. YOUNG. Financial adviser to the Chinese Government. And Dr. Rajchman was advising on general matters. He was not a financial expert, but he was advising on general matters, and at this point, as I remember it, he volunteered the suggestion to Dr. Soong that Mr. Field could help to put this document in shape, would help to make it presentable and impressive to the American authorities.

Mr. MORRIS. Did he make it presentable and impressive to the American authorities?

Mr. YOUNG. I don't remember that he made many changes.

Mr. MORRIS. At this time, on the American side of the picture, who were the individuals who were advising our own Treasury Department and our own State Department on what the policy should be with respect to the stabilization?

Mr. YOUNG. Well, on the State Department side the matter was handled by Dr. Stanley Hornbeck, and Mr. Horace Smith, and Mr. Joseph Jones were also working on it, I recall. They were State Department experts. In the Treasury, the matter was handled primarily in the office of Mr. White.

Mr. MORRIS. Harry Dexter White.

Mr. YOUNG. I might say this, that the document I mentioned, that Dr. Soong submitted, proposed a continuation of the type of stabilization operations that we had conducted up to 1941. That is, the stabilization of the open market and the maintenance of confidence through support of the rate of exchange, and in my discussions with the State Department in 1939 and also in my discussions with Mr. Morgenthau, I had supported that same policy which we thought had worked reasonably well, considering the resources that we had, and so far as I could judge, the State Department was convinced of the merits of that policy.

The State Department asked me, after I left Washington for California in 1939, for a statement on various points on that, and I submitted a full memorandum giving them all details as to how the policy might successfully be carried out. Also, they wanted to know

how much money it would take to carry it out, and I thought \$50 million in the first instance to carry it for a year, but with \$25 million more on call.

Then in 1940, when this matter got into the hands of the Treasury, they shifted the base. The Treasury supported the idea of introducing an exchange control into China at this period. That was an idea that we had played with from the very beginning. We considered it at the very outbreak of the Japanese—the Sino-Japanese War.

We rejected it on the grounds that the Japanese would have control of the ports and that the Chinese Government would have no means to administer an exchange control and also lacked the administrative experience at that time to do it.

But the Treasury nevertheless took up the idea of exchange control and, when they introduced this stabilization plan in 1941, it was based on the idea of an exchange control. So they took the ball away from those of us who had been handling it before and, when the stabilization plan of 1941 was put into operation, it was done on the basis of an exchange control.

Mr. MORRIS. Dr. Young, what position did a gentleman named Chao Ting-chi have at this period?

Senator, he is now an official of the Chinese Communist Government and he was a Chinese Communist in the United States at that time whom we encountered previously in our Institute of Pacific Relations hearing.

Mr. YOUNG. My first contact with Dr. Chi was in the latter part of 1938. At that time, approximately that time, he came to China from the United States and I remember that he called on me soon after his arrival. I had heard at that time that he was or had been a Communist in the United States. He worked with the Chinese Government—I do not recall the capacities—until 1941. But when the Stabilization Board was set up in 1941, he became the general secretary of that organization.

Mr. MORRIS. So you had a Chinese Communist as the general secretary of the Stabilization Board at that time.

Mr. YOUNG. Well, there was some talk around that maybe he was no longer a Communist; but, in any case, he was appointed as secretary general of the Stabilization Board and he later became a secretary to the Finance Minister, Dr. Kung.

Mr. MORRIS. Did Dr. Harry Dexter White try to get control of the Stabilization Board?

Mr. YOUNG. Well, he did—he was very anxious; and the Treasury took over this matter from the State Department. He was very anxious, apparently, to get control of this and to devise his own plan, which he did. Also the Treasury was, of course, insistent on putting in their own man, Mr. Fox, to be their representative on the Stabilization Board.

Senator BUTLER. What plan did he devise, the stabilization plan?

Mr. YOUNG. The stabilization plan. Secretary Morgenthau went before Congress in the latter part of 1940 and explained that plan, or rather, explained the general idea of providing a stabilization fund. He received the approval of the committees and of Congress, which he had been committed to seek. And then the Treasury went ahead to work out the details with the Chinese.

Mr. MORRIS. Mr. Chairman, I would like to make reference at this point to a document already in the record of the hearings.

By the way, Senator, we have introduced more than 1,000 of the entries from the Morgenthau diaries into the record as of this time.

I would like to make reference to a memorandum from Mr. White dated June 10, 1944, in which it is apparent that White is recommending Dr. Chi to go to the Bretton Woods Conference.

In what capacity?

Mr. MITCHELL. Adviser to the Chinese.

Mr. MORRIS. As adviser to the Chinese delegation.

Do you know where Dr. Chi is now?

Mr. YOUNG. I understand he is a high official in Communist China. I was told by a Chinese friend yesterday that he is the No. 2 man in the Bank of China, which is one of their state banks—nationalized since the Nationalist regime.

(The document referred to was marked "Exhibit No. 327" and reads as follows:)

EXHIBIT No. 327

JUNE 10, 1944.

To: Mr. Collado.

From Mr. White.

Will you please send the following cable to the American Embassy, Chungking, China:

FOR ADLER FROM THE SECRETARY OF THE TREASURY.

You are requested to express personally to Dr. Kung my pleasure that he is coming to the United States.

You are informed that Friedman, who is now in Cairo, has been instructed to depart immediately for Chungking to substitute for you as Treasury representative. You are instructed to present yourself to Vice President Wallace upon his arrival in China, if you have not already done so, and to make available to him whatever economic data you have on the Chinese economic situation which he may desire and otherwise to assist him in every possible way.

It is requested that you return to the United States to report and to participate in the United Nations Monetary and Financial Conference, but you should not leave Chungking until it is no longer necessary for you to be available to the Vice President. In addition, you should not leave Chungking after Friedman's arrival until you have had the opportunity to get him started and to acquaint him with the necessary details. Please cable us as soon as possible the probable date of your departure from China.

It is suggested by White that if appropriate you might suggest to the proper Chinese authorities that if Dr. Chi, whose book on foreign exchange White had the pleasure of reviewing, could come to the Monetary Conference as one of the technical assistants, that his excellent knowledge of the English language and his technical competence in foreign exchange problems would probably prove to be very helpful.

Mr. MORRIS. In May, 1956, Dr. Chi was the chief delegate for the Chinese Communist government to the Paris Merchandise Exhibition, among other things.

I would also like to introduce into the record, Senator, at this time a communication from Harry Dexter White to Mr. Collado which reads:

Will you please send the following cable to the American Embassy, Chungking, China.

This is "for Adler," meaning Solomon Adler, who has been identified in our record as a member of the Communist ring, "from the Secretary of the Treasury." It reads:

The Treasury appreciated the information from you that Wei Ting-sheng was to come to the Monetary Conference.

Have you heard if Dr. Chi is also to come to the Conference? White had the pleasure of reviewing Dr. Chi's book on foreign exchange and informs me of Dr. Chi's excellent knowledge of the english language and of his technical competence in foreign exchange problems. I would therefore be very interested to know if Dr. Chi has been designated by China to attend the Monetary Conference as one of China's technical assistants, since his presence would probably prove to be very helpful. Please reply as soon as possible.

I think in view of the personality involved there that that might also be interesting in connection with Dr. Young's testimony here today.

Mr. YOUNG. May I say that this stabilization plan devised by the Treasury at this point proved to be very expensive to China. During the period of about 3 years, from the middle of 1938 to August 1941, when the Stabilization Board put it over, we had maintained a moderate degree of stability with the expenditure of a little over \$40 million. If we had had more, we could have handled it even better, but the funds were just not there and we couldn't persuade the American Government to assist us to the necessary extent.

The British Government, however, did put up, made a very helpful advance of 5 million pounds sterling, but as soon as that and the Chinese contribution were exhausted, we were out of funds.

Then the Stabilization Board took over in August of 1941—yes, 1941—operating an exchange control and that proved to be costly. In about 3½ months from August 18, if I remember correctly, to Pearl Harbor in the early part of December of 1941, their expenditures were about \$24 million. In other words, in less than 4 months they had spent a sum of about \$24 million compared with the cost that we had been incurring over 3 years of not twice that amount.

If it would be of interest to the committee, I would be very glad to put into the record a contemporary paper that I recently came across which was a letter I wrote just on the eve of Pearl Harbor to Mrs. Young, more or less to record the situation. I did set out my views as to what had taken place there. I think I would stand by most of it. There may be 1 or 2 points in which I expressed myself a little more strongly than I would now.

Senator BUTLER. The letter will be received and made a part of the record, Doctor, at this point.

Mr. MORRIS. That is the letter you showed us yesterday?

Mr. YOUNG. That is right.

Mr. MORRIS. May that go into the record at this point?

Senator BUTLER. Yes.

(The document referred to was marked "Exhibit No. 328" and is as follows:)

#### EXHIBIT No. 328

LETTER OF DECEMBER 7, 1941, FROM ARTHUR N. YOUNG, FORMER FINANCIAL ADVISER TO CHINA, TO MRS. YOUNG ON THE FINANCIAL SITUATION, WITH SPECIAL REFERENCE TO CURRENCY STABILIZATION MEASURES

CHUNGKING, CHINA, *December 7, 1941.*

I am taking this occasion to write some confidential comments which are not to be circulated but only to give some idea of how things are going.

I was quite right to come back promptly when I did (last June), and to come via Burma. I still receive indications of the success I have had in Rangoon, Lashio, and along the road. Among the matters I started were: abolition of the

Burma tax on Chinese war supplies; decentralization of storage of war supplies in the chief cities of Burma and along the road; the sending of the U. S. anti-malaria mission, which will much improve the health of the workers and facilitate the paving of the road and the building of the railway; the seconding of an American railway expert to work with the Chinese and Burma authorities—he is a good man (Major Ausland) and is very much on the job and will probably succeed in jamming the road through by about the end of 1942 if the Burma people do their part well; the prompt shipment of U. S. machinery for paving the road; and a number of lesser matters.

In Chungking, I have not been as successful in major matters, but still have done some worthwhile things. First, there has been a change in monetary policy during the last few months which is not for the better. The responsibility rests on China and the U. S., while I have to say that, on the whole, the British have held up their end best, though some British elements have had a share in upsetting the former policy (Keynes). They have tried and are trying to introduce here forms of control which are not adapted to existing conditions—that is, to apply European exchange and trade control. While the Japs have the authority in the main ports and in Free China there is no administrative organization to work the controls properly. Early this year China asked for freezing of Chinese assets so as to try these controls. In March I strongly recommended against these measures, which I felt would do great harm to China. But this advice was unheeded by both China and the U. S. There was a wish to have a new deal in monetary policy. It was charged that, because Shanghai is a hotbed of speculators and Japs, the support of the Chinese currency in its greatest market should be stopped. They overlooked the way in which support of Shanghai exchange maintained confidence in the currency, and indirectly in the Government; held back prices—at each break in exchange merchants throughout leading centers of China mark up their prices for everything—and checked the Japanese efforts to exploit the occupied areas by sustaining the position of the Chinese currency there and preventing the Japs from getting the financial system into their hands.

After freezing, even, the old policy need not have been changed, at least before plans had been made to carry out a new one. But, instead, the new Stabilization Board at once announced about August 15 that they would control exchange at rates that were about 10 percent over the market—even though the market was then probably  $1\frac{1}{2}$  to 2 times as high as it should have been—instead of gradually letting down rates and doing what could be done to hold confidence. The result was that people soon realized that they could not get from the Board the exchange that they thought they needed; and, since the Board had not been able to “dry up the black market,” as Fox had publicly stated was to be done, the free market rates went to pieces and confidence was lost. The Board was swamped with applications and had almost no staff and no procedure for handling the papers. Of course there were long delays which further hurt confidence. Besides the Japanese Cabinet change in mid-October was a bad break for the Board and led to panic conditions in Shanghai, coming on top of the great nervousness about the provision of exchange. Under our old policy, we always were able to intervene in the market at such times and prevent chaotic conditions. But the Board would not hear of the idea of trying to support the wicked “black market,” which went from bad to worse while they were handling their papers and trying to decide what to do. The Hong Kong office of the Board, with a makeshift staff of 50–60 hurriedly thrown together and crowded into a few rooms in the Hongkong Bank building, was a madhouse. The key members of the staff had to work 10–12 or more hours daily without rest and almost wreck their health in an effort to keep things going. Shanghai business interests flocked to Hong Kong to try to get action. There was no office in Shanghai to represent the Board. Meanwhile, Chungking blamed the Board for being in Hong Kong most of the time, and the members had to come here when they were overworked in Hong Kong. Chungking also blamed them for paying so much attention to Shanghai and giving Shanghai so much exchange. With Shanghai cursing for not getting enough exchange, with the public panicking there and prices constantly marked up all over China, and Chungking attacking them from the other side, they have had a bad time.

The net result has been to aggravate greatly the inflation, which is China's greatest danger in the war. Perhaps the price rise has been accelerated by several months as a result of these experiments. The price rise was inevitable in any event; but we have been fighting a rear guard action to hold it in check

as much as possible. Back in the summer of 1939, the failure of China to put up more exchange to help to hold the market after the Sino-British Fund was exhausted had similarly started a dangerous price rise. This also had accelerated the inflation by perhaps six months. These efforts have amounted to rocking the boat.

When I came back in July, I at once called on the Stabilization Board, which had taken refuge on the second range, far removed from any contamination of any sort. I told the members individually that I wanted to cooperate in any possible way and to put at their disposal my experience with the currency management for whatever it was worth. At that time they resisted all attempts to talk business and obviously did not want to discuss pending problems at all. I had the impression that I was considered poisonous, though of course everyone was perfectly polite.

When freezing came, on July 26, I still urged a moderate policy—not to hurry about trying to stop the free market or starting exchange control or fixing official rates of exchange. But the policy of controls was decided upon; I was not at the conferences; and the old policy was scrapped. Incidentally, the old policy had maintained quite a high degree of stability, despite the reluctance of high authorities to carry it out wholeheartedly, and at relatively small cost. In fact, for many months, the net cost of maintaining fairly stable rates had been almost nil. Now the Board is paying out many millions of U. S. dollars monthly and without any effect on prices comparable to the effect of our simple policy of maintaining an orderly market at Shanghai. If the new policy, compared to the old one, benefits China and injures Japan, I would like to be shown how. Of course this does not apply to freezing of Japan which I favored.

Thus the Stabilization Board has had anything but a stabilizing effect. Fox has dominated the Board. Whatever he opposes is not done, as the Chinese members and Hall Patch either agree or do not want to make a fight. It is a pity that Rogers was not accepted as a member, as he has a much better grasp of what is good for China in this field than all the rest combined. But some of his acts had caused too much antagonism.

Now, after six months, the Board is getting better organized. They are learning their job, but it is a pity to have to do so at China's expense. Despite what I have written, I have, of course, not said much here. Since there is a job to be done, I have tried to help out as much as permitted. Now that the new policy is adopted and cannot well be changed, we must do all we can to make it work. Something like what is now being done would have to be done anyhow in case of war; but it would have been wiser to make the plans but not to use them till we are forced to do so. If a Pacific war comes, the harm that has been done will be lost sight of; but if there is no war for a few months the effects of the policy are likely to become more clear. The Board have a bear by the tail. They will have to keep on putting out millions of U. S. dollars month after month unless they abandon Shanghai to the Japs—which would be the effect of stopping. We were blamed for the cost of our former policy; but it will be nothing compared with the cost of the new one if there is no war or if Shanghai is not abandoned. And we could recoup much of our cost, but they can do very little because they cannot buy back exchange or get people to sell them much at the uneconomic rates they have set and which they cannot well change without great further shock to the currency.

So much for that. I have been busy with budget matters and have been able to have certain useful influence. On this I have worked closely with Sir Otto Niemeyer, the British expert, who is a good man. I have given various memos to Dr. Kung, the Generalissimo, and the chief officials concerned. I think we have been able to get a much better budget than would otherwise have been adopted, though it is considerably higher than it should be. The Government should make real cuts of unessential things and properly support what is necessary, instead of trying to run so many things with such inadequate support.

The trouble I strike is that so many of the officials want to solve their financial problems by magic rather than by applying the old and well-tried financial virtues of economy and sound administration and taxation. They want to get their problems solved by help from abroad rather than by doing what they can and should do themselves. The freezing, for which they asked, paradoxically for them, has removed the possibility of selling foreign currency here to suck up inflation and give the Government money which it could reissue rather than to print fresh issues. So what foreign countries can do to help, in addition to Lease-Lend and providing funds for the Stabilization

Board, is very limited. The problem is now mostly up to China; yet many do not admit that inflation is the chief cause of ever-rising prices and blame it on speculation, transport troubles, shortage of goods, hoarding, etc., which are relatively minor. Any remedy must treat the main disease and not try to suppress the symptoms.

Despite all these things I have mentioned, I find my advice sought more and more, and a number of the younger men come to me about their problems. There is a lot of good stuff here. The troubles are due in no small part to the effects of strain of war on the leading personnel. They have often been ill and have had little or no rest and change and vacation. Many have not had proper food or medical attention. This is one of the indirect but sad results of war. I do not now find the vigor and judgment and ability to carry out plans that I knew before the war when we were able to do so much. And the success of China in standing off the Japs for four and a half years and bringing them to a state where their position as a "great" power is likely soon to be ended has not unnaturally gone to their heads. They have done so much by their own efforts in spite of our criminally stupid neutrality law and unwillingness to give help when it counted most, that it is not surprising that they now want to have their head. They must learn by their own experience, like most individuals—but what an unnecessary cost.

Meanwhile the inflation goes merrily on. Prices now are probably 20 to 25 times the prewar level in leading interior cities, and perhaps 15 times as high as prewar in the country as a whole. The increase in the past six months has been about 50 percent. The dangerous part is that these increases get faster and faster. I am urging reforms while there is yet time. The war out here is likely to last another two years, and we must do what we can to get China through that period. The ravages of inflation are so serious, however, that China will have a tremendous problem after the war to put its house in order. The financial questions alone will be grave enough, but there is also the still unsettled internal political problem of Kuomintang-Communists and other parties, the tendency in many circles toward gestapo methods and dictatorship, the question of regional differences, political differences, political personalities, the exploiting tendencies of some officials, face and political favoritism, the serious land problem, and others. China is too nationalistic, after its heroic resistance, to tolerate much foreign help in actually doing things to aid in putting the house in order. How it will all work out, no one can say. Still, as Royal Leonard once said, China refuses to do the obvious but often does the impossible.

SENATOR BUTLER. Doctor, you said in less than 4 months they spent more than half of what you had spent in over 3 years to do the same job, not as well.

MR. YOUNG. We were doing it in a different way. We were trying to maintain stability, relatively, of the currency in order to maintain an orderly market. Of course, there were times when the currency had to be allowed to slip because of the inflation, and the exchange value of the currency fell, but we tried to control those whenever we had resources, so it would be done in as orderly a way as possible.

They sold exchange at a fixed rate which I think was fixed too high, and they were unable to buy anything back. It was a one-way proposition, all going out and nothing coming in, whereas on the free market operation we could sometimes buy back, as I mentioned in the case of his Hankow affair, when we bought back most of the \$16 million we had sold, after the market settled down.

So they had this exchange control. They were giving it all out. In the meantime, the free market rate, which had been steady a number of months, went to pot. It immediately dropped down when there was no support of the free market, and that was a shock and aggravated the prices and made the financial problems more difficult for the Chinese Government, in my opinion.

MR. MORRIS. During this period China needed to raise money by any practicable means, did it not, in order to keep the inflationary forces from gaining the ascendancy?

Mr. YOUNG. All the way through, that was my advice to China. They should raise everything possible by noninflationary means.

Mr. MORRIS. In connection with that last question, and your last answer, have you made a study of the Morgenthau diaries, Mr. Young?

Mr. YOUNG. I have made a study of the documents that I understand are in the records of the committee.

Mr. MORRIS. More than 1,000 documents that we have referred to earlier today. They are now in the record of the committee.

Mr. YOUNG. I have made a study of those with special reference to the transactions for sales of gold in China, which was one of the more important of the noninflationary means of raising revenue.

Mr. MORRIS. And, Dr. Young, on the basis of that study, together with the experience that you personally had in China during this period as a financial adviser to the Chinese Government on this very problem, you have prepared, have you not, a 19-page outline which is annotated for the express purpose of the record, of having it inserted into the record of the Internal Security Subcommittee?

Mr. YOUNG. Yes, sir.

Mr. MORRIS. I would like to offer this, Senator, this memo so described, captioned "China and Gold, 1942-45, by Arthur N. Young," dated July 11, 1956, which Dr. Young has prepared, having studied the Morgenthau Diaries, having incorporated into that study his own experience and, as I say, he prepared this expressly for the purpose of the record of the Internal Security Subcommittee.

I would like to now offer that for the record.

Senator BUTLER. It will be received and made a part of the record. (The document referred to was marked "Exhibit No. 329" and reads as follows:)

EXHIBIT No. 329

JULY 11, 1956.

CHINA AND GOLD, 1942-45

(By Arthur N. Young)

(This statement is based upon the writer's own experience and upon study of the Morgenthau Diaries, made available by the Subcommittee To Investigate the Administration of the Internal Security Act and other Internal Security Laws of the Senate Committee on the Judiciary in June-July 1956. The writer was financial adviser to the Nationalist Government of China and to the Central Bank of China while the events herein discussed took place.)

Shortly after Pearl Harbor, China asked the United States for a large loan. China had fought Japan for four and a half years with meager foreign aid. American and British defeats by Japan in the early part of the Pacific war showed that the war would last a good while. The American Government readily responded to China's request. On March 21, 1942, an agreement was signed at Washington for a credit to China of \$500 million. The funds were to be transferred "in such amounts and at such times as the Government of the Republic of China shall request."<sup>1</sup>

Secretary Morgenthau was most helpful to China in supporting in the administration and before Congress China's request for this loan. Previously he had taken a helpful interest in China's problems, by buying China's silver at good prices at the time of Japan's attack in 1937 and thereafter. Also he had helped China to obtain credits from the Export-Import Bank, beginning at the end of 1938, for purchases of needed supplies in the United States.

Shortly after the \$500 million credit was concluded, the writer and officers of the Central Bank of China urged that China use part of this credit to get gold to be sold in China. This would reduce dependence on paper money financing,

<sup>1</sup> The text is given in U. S. Relations With China, Department of State, 1949, pp. 511-512.

which had become unavoidable under war conditions. It was realized that gold sales would have to be experimental.

In February 1943, the Chinese Government asked for \$20 million of this credit of \$500 million to buy gold for shipment to China, and the Treasury promptly agreed. No shipments were made, however, until September 28, 1943. The delay seems to have been due in part to problems of transport and insurance.

Meanwhile, on July 8, 1943, a message from Finance Minister Kung was received at Washington stating that inflation was growing in China, and that American needs for airfields and other facilities added greatly to China's expenditures. Dr. Kung thought it desirable to sell gold actively in order to raise funds other than by printing notes, and asked that \$200 million of the credit be used for shipment of gold to China. He stated that Mme. Chiang, at the time of her visit in June 1943 had obtained the approval of President Roosevelt and Secretary Morgenthau for the use of \$200 million of the credit for buying gold.

Secretary Morgenthau sent a message to Dr. Kung on July 14, 1943, stating that the Treasury agreed in principle but had made it clear to China that it acquiesced because the sale of gold to the public would help China to fight inflation and hoarding; and that such use of gold involved great costs and difficulties and the decision was primarily China's responsibility. Also, Mr. Morgenthau stated, China would be sacrificing assets which could be used postwar for reconstruction.

In response to a formal request by the Chinese Ambassador, Secretary Morgenthau on July 27, 1943, made the following reply to Minister Kung:

"The Treasury agrees to the request of the Government of China transmitted to me by Ambassador Wei Tao-ming that \$200 million be made available immediately from the credit on the books of the Treasury in the name of the Government of the Republic of China for the purchase of gold.

"In order to avoid unnecessary raising of funds by the United States Treasury, it is suggested that transfers from the credit of the Chinese Government for the purchase of gold be made at such time and in such amounts as are allowed by existing facilities for the transportation to China of the equivalent amount of gold. Since it is intended that this gold will be sent to China for sale to the public, this procedure should not interfere with the program outlined in your message of July 23, 1943.

"On receipt of requests from the Government of China that a specific amount should be transferred from the credit of the Government of China on the books of the Treasury and be used for the purchase of gold, the necessary action will be taken to consummate these requests. The details of the arrangements will be discussed with Dr. P. W. Kuo and Mr. Hsi Te-mou."<sup>2</sup> In reply Dr. Kung expressed appreciation and said he would request the gold in specific amounts as needed.

The Treasury clearly recognized the desirability in principle of using gold to raise funds for war purposes as a noninflationary expedient. A memorandum of September 22, 1943, by Mr. Harry D. White, of the Treasury, to Secretary Morgenthau stated that the Treasury expected to sell about \$20 million of gold in the next three months in the Middle East and India to cover local war costs of the United States, and that the amount of such sales was likely to grow.<sup>3</sup>

In the same memorandum, Mr. White informed the Secretary that:

"China has asked for \$50 million worth of gold in accordance with your promise to make the gold available." A memorandum prepared by Mr. White recorded his conversation with Secretary Morgenthau on September 29, 1943, as follows:

"I said that I thought that we ought to be tough with the Chinese on the question of earmarking \$200 million of gold for gold sales which they could not make before the gold could be shipped to them. The Secretary agreed. He said he thinks that we should be tough in this matter and he told me to go ahead and let them have the gold only as rapidly as it could be shipped and sold in China."<sup>4</sup>

In this period there was discussion of possible sale of gold in China by the U. S. to meet American expenditures and thus overcome the disadvantages of the artificial official rate of exchange of C\$20-1. Minister Kung had no objection in principle but thought the plan inadvisable because other governments would be likely to claim the same privilege.

These gold transactions had a helpful effect in checking inflation. A telegram of November 30, 1943, to the Treasury from Mr. Adler, Treasury representative at Chungking, stated that the rate of price rise had slackened due to various

<sup>2</sup> Text from U. S. Relations With China, pp. 487-488.

<sup>3</sup> Morgenthau Diaries (hereinafter called Diaries). V. 666, p. 179 (exhibit No. 332).

<sup>4</sup> Diaries, V. 668, p. 68 (exhibit No. 333).

causes including an adequate harvest, better war news, and the psychological effect of announcing the purchase of gold by China.<sup>6</sup> On December 14, 1943, Minister Kung telegraphed to Secretary Morgenthau that the arrival in November of American gold had helped to strengthen the Chinese currency.

The Chinese Government began the sale of gold prior to arrival of the first American shipment on November 19, 1943, using gold already held in China amounting to about 50,000 ounces. These sales, handled by the Farmers Bank of China, were managed so as to avoid disrupting gold prices. Sometimes the Bank bought to steady these prices. Total sales by the Farmers Bank up to March 1944 were about 33,000 ounces worth over \$1 million.

The Central Bank of China took over the selling of gold in March 1944. Until the summer of 1944 China had enough gold because of the \$10 million of American gold that arrived at the end of 1943, plus two lots of \$1 million each that came in April and July 1944. But by July it was clear that more was needed.

On July 12 the Central Bank urgently asked for air shipments. The Treasury sent two lots August 3 and 21. The first of \$3 million went by sea and reached China September 21. The second of \$1.5 million went by air and arrived September 12.

Meanwhile sales of gold in China speeded up. The figures of sales of gold and arrivals of American gold in the second half of 1944 were:

1944	Sales	Arrivals	1944	Sales	Arrivals
July.....	\$4,393,000	\$1,092,814	October.....	\$7,175,000	\$2,849,323
August.....	1,800,000	-----	November.....	7,600,000	-----
September.....	5,260,000	4,493,421	December.....	3,185,000	2,949,136

Details of the dates and amounts of gold shipments from the United States to China, and also official and free market gold prices, sales and receipts in China, are shown in Tables I and II at the end of this statement.

Up to October 1944, the supply of gold sufficed to meet the demand. Total sales had been about \$18 million, which were covered by arrivals of American gold worth about \$17 million plus the 50,000 ounces worth about \$1.75 million already in China. But the Treasury's holding back was having its effect in China. The inadequate response to the Central Bank's request of July 12, 1944, created doubt in the market, as no fresh shipment left the United States until August 3. That naturally stimulated the urge to buy gold. By October 6 the Bank had on hand only a few days' supply—28,000 ounces worth about \$1 million.

Until midsummer of 1944 official gold prices had been fairly close to free market prices. The average monthly free market price did not exceed the official price by more than 10 percent until August 1944. On July 16, 1944, the Central Bank in a surprise move lowered the official price from C\$18,500 to C\$17,500 in order to trap speculators and strengthen confidence. The Bank always was understandably reluctant to raise the official gold price because of fear that its action would hurt general confidence and be reflected in a rise of general prices. In September 1944, however, the Bank raised the effective official gold price to C\$19,250 and in October to C\$21,000 by including a supplement first of 10 percent and then 20 percent for compulsory purchase of Chinese Government Treasury notes. In November the official price was raised to C\$24,000.

In a telegram of October 6 the Central Bank told its representative in the United States that the difference between official and black market prices was "entirely due to stock having been exhausted \* \* \*. Public got scared because we had no more gold. All rushed for what they could grab." As a result gold prices rose, though large arrivals of gold in September and October checked the rise. A further condition promoting a rise in the black market was the aggravated inflation, whose pace was speeded up by the heavy spending of printing press money for the huge airfields built at Chengtu in the first half of 1944 for the American B-29's, and costing about C\$6 billion.

The reluctance of the Treasury about gold for China was shown by a statement by Secretary Morgenthau in a conference with his staff on December 17, 1943, at which he said: " \* \* \* it was our fault or blame or responsibility that the gold

<sup>6</sup> Diaries, V. 682, p. 83 (exhibit No. 334).

left here so slowly. We thought that was the only way to make it last, and that we could let it go faster."<sup>6</sup>

A Treasury memorandum of December 18, 1943, to President Roosevelt said: "This practice has not been tried sufficiently to warrant any definite conclusion as to its possible effect".<sup>7</sup> Mr. Adler in a report of February 22, 1944, said that China was "ultra conservative" and was not selling much gold.<sup>8</sup>

The Treasury in this period was giving effect to Secretary Morgenthau's decision of September 29, 1943, reported in the above-quoted memorandum to "let them have the gold only as rapidly as it could be shipped and sold in China." Until July 1943, when the pace of gold selling sharply picked up, the shipments could be regarded as reasonably adequate, though without much margin for reserve. But in response to the Central Bank's urging beginning July 12, only about \$13 million of gold was shipped between August 3 and December 1, to arrive in China between September 12, 1944, and January 26, 1945. This compared with sales of over \$33 million in the period from September through January.

After January 26 no more gold reached China until June 14, 1945. In order to meet the demand the Central Bank begun sales for future delivery, as discussed below. Had moderately larger amounts of gold been on hand in due time in the fall of 1944, much of the later trouble might have been avoided.

The fall of 1944 was a most difficult period for China. The Japanese, irked by the effective bombing of their shipping along the Chinese coast and of their installations and operations in eastern China by General Chennault's Fourteenth Air Force, made a heavy drive with mechanized equipment which resulted in capturing the east China airbases. Their forces advanced toward Chungking and Kunming and the Chinese forces were unable to stop them. The drive was checked partly by the flying in of better trained and equipped Chinese troops from the Burma-India sector, and probably more importantly by the rapid American advances in the Philippines.

The fear that the Japanese would force evacuation of Chungking and Kunming led to greatly increased demands for gold in the fall of 1944. In times of stress, gold, being of high value in small compass, is a wonderful asset to people who fear they may be forced to flee for their lives. Coupled with this was the rapid growth of inflation, spurring flight from the currency into whatever purchases would be likely to hold their value, notably gold. After October 1944, the demand for gold was unprecedented.

That gold was not available in China to meet this exceptional demand in the latter part of 1944, clearly was due to the fact that the Treasury had been dragging its feet. It was not due to lack of pressure from the Chinese side. At a meeting with Messrs. White, Bernstein, and Adler, on October 2, 1944, the Chinese representatives presented a copy of a telegram from the Central Bank of China, Chungking, as follows:

"As Federal Reserve Bank of New York advised having shipped balance by plane thus exhausting our \$20 million and as sales still extremely heavy and recent arrivals far from being adequate to meet outstanding contracts, please request U. S. Treasury immediately transfer US\$20 million or if possible more out of \$200 million and ship by plane."<sup>9</sup>

Mr. White questioned the merits of selling gold, pointed out that it would be a valuable asset postwar, and expressed the view that if sold in China, it would "not substantially retard rising prices or the basic economic situation which was due to acute scarcity of goods", and also much of the gold would disappear into hoards. This argument was not sound. Gold was well calculated to check inflation because its official price of C\$21,000 per ounce was equivalent to C\$600 per dollar, whereas the black market rate for American currency was about C\$250 per dollar. In other words, gold in China was worth 2.4 times as much as American currency, i. e., equivalent to \$84 per ounce compared with the legal American price of \$35, and at this time the free market price was about C\$24,000 or about 14 percent above the official price. As to scarcity of goods, of course many individual items were very scarce because of the war. But most of the goods consumed in China were produced there and despite the war, production of foodstuffs and many local items was pretty well sustained. The price of rice, for example, rose along with other items. Clearly the main cause of the price

<sup>6</sup> Diaries, V. 685, p. 26 (exhibit No. 335).

<sup>7</sup> Diaries, V. 685, p. 141 (exhibit No. 336).

<sup>8</sup> Diaries, V. 703, p. 43. (See p. 1942 of pt. 34, Scope of Soviet Activity in the United States.)

<sup>9</sup> For a report of this conference, see U. S. Relations With China, 1949, pp. 502-504.

rise was the printing and issue of paper money. As to hoarding, it was far better to hoard gold paid for by turning in money that could be reissued, than for that money to remain in circulation and be used in part to buy and hoard scarce goods.

At this conference, Mr. Adler pointed out that the spread between official and market prices of gold had temporarily gone to as much as 60 percent early in September, but had dropped to C\$1500 (about 8 percent) with the arrival of gold. This appears to refer to a shipment of about \$1.5 million which arrived September 12, 1944, being the first arrival since July 12, 1944. The Chinese representatives went on to point out that if there were sufficient supplies of gold, the discrepancy could be obliterated. They "emphasized that the market's lack of confidence in the Central Bank's ability to procure adequate supplies was apparently the main reason" for the discrepancy. They stressed that "the cessation of the sale of gold would have very serious effects at this time." Despite the representations by China, there was no shipment of gold for a month, and that shipment was sent by sea whereas the earlier shipments from September 1943 through March 1944 had gone by air—the next shipment after March 27 having gone by rail to California on August 3, 1944, and thence by steamer.

A memorandum by Mr. White to Secretary Morgenthau dated December 9, 1944, says that the Chinese have been pressing to ship gold by commercial vessels, whereas the Treasury had insisted on military transport. "We have stalled as much as we have dared," said Mr. White, "and have succeeded in limiting gold shipments to \$26 million during the past year. We think it would be a serious mistake to permit further large shipments at this time." Mr. White went on to say, however, that the Treasury was going ahead with its program to obtain in India "all our rupee needs through the sale of gold."<sup>10</sup>

In furtherance of the Treasury's policy, no gold was shipped to China between December 1, 1944 and April 14, 1945.

Meanwhile, the Chinese continued to press for shipments. Finance Minister O. K. Yui, in a telegram of December 30, 1944, to Dr. Kung (who was then in the United States) said that the gold was urgently needed and asked him to request Secretary Morgenthau to expedite shipments. On January 3, 1945, Dr. Kung wrote to the Secretary appealing to his friendship and asking his cooperation. The Secretary replied January 6 that he hoped to give a decision in the near future and was giving "fullest consideration to the best interests of China."<sup>11</sup>

In a memorandum which Mr. White submitted to the Secretary for presentation to President Roosevelt dated December 23, 1944, it was stated that the gold was being sold "in such a way as to be of benefit principally to hoarders and speculators" and much of it was finding its way to the occupied areas; that it was having "practically no helpful effect on the inflationary situation"; and that while it gave the Chungking government an additional source of revenue, this was "by the sacrifice of valuable national assets at inexcusably low prices." The memorandum went on to say that the Treasury had held back shipments despite pressure from China. The gold exports, it was explained, clearly showed American support of Chungking. The memorandum suggested use of the shipments as a "bargaining weapon," to get Chungking to accept "your China program." The record indicates that the Secretary did not present this memorandum to the President.<sup>12</sup>

Commenting on the objections raised, it should have been clear that the sale of gold was designed to attract purchase by persons who otherwise would engage in hoarding rice or other important goods and speculate in them—in other words, so that they would be diverted from this harmful activity, thus adding to the supply of goods available in the market. It was true that some of the gold found its way to occupied areas, but the buyers there were largely Chinese and in any event, the Government got value in local currency withdrawn from circulation for the gold that it sold. As to effect on the inflation, receipts from gold reduced substantially the deficit covered by the printing press. A telegram from Mr. Adler at Chungking, March 11, 1945, reported that receipts from gold had become the chief source of revenue in January and February and was thus covering about one-fourth of the deficit.<sup>13</sup> As to the

<sup>10</sup> Diaries, V, 802, pp. 1-3 (exhibit No. 337).

<sup>11</sup> Diaries, V, 807, pp. 257-259 (exhibit No. 338).

<sup>12</sup> From Harry D. White papers, lodged at the Princeton University Library, received by the Senate Internal Security Subcommittee of the Judiciary Committee, September 30, 1955. See Diaries, V, 846, p. 35, May 10, 1945 (exhibit No. 339).

<sup>13</sup> Diaries, V, 827, pt. 1, pp. 53-55 (exhibit No. 340).

sacrifice of assets needed for postwar at "inexcusably low prices," in wartime all kinds of valuable assets, including lives, have to be sacrificed. As to the prices, the absence of stocks of gold made it impossible to control the market, or to realize the much greater value that would have been possible from selling spot rather than forward. Furthermore, measured by the black market prices for American currency, which is admittedly a not wholly satisfactory measure, because of the narrowness of the market, gold produced for China in this period sums equivalent to well over \$35 per ounce.

With stocks of gold in China exhausted while demand ran high, the Central Bank was forced to adopt the expedient of selling gold for future delivery. The table that follows compares sales of gold, mostly commitments to deliver gold in the future, with arrivals in China for the first half of 1945:

Date	Sales (Chinese ounces) <sup>1</sup>	Value	Arrivals
1945—January.....	295,000	\$10,325,000	\$2,926,982
February.....	354,000	12,390,000	
March.....	509,000	17,815,000	
April.....	264,000	9,240,000	
May.....	306,500	12,775,000	
June.....	467,000	16,345,000	3,978,866

<sup>1</sup> The Chinese ounce or tael equals 1.00471 troy ounces.

Gold sales based on commitments for future delivery were made in two ways: by selling gold forward and by accepting deposits to be repaid later in gold. The amount of these transactions in futures is shown below (in Chinese ounces): <sup>14</sup>

Date	Forward sales	Gold de- posits	Total
1944—August.....		370	370
September.....		9,340	9,340
October.....		19,013	19,013
November.....	116,930	105,156	222,086
December.....	21,760	64,272	86,032
1945—January.....	61,730	233,562	295,292
February.....	94,510	259,176	353,686
March.....	15,870	477,100	492,970
April.....	730	257,268	257,998
May.....	500	305,970	306,470
June.....		467,051	467,051
Total.....	312,030	2,198,278	2,510,308

These sales of futures had to be made at unfavorable rates. Because of the rapid rate of inflation, interest rates in China were 8 percent or more per month. Hence what buyers would pay for the right to receive gold in six months was related to what they could make by putting out their money at interest for that period, in which the original sum would about double.

Meanwhile, demand for gold far outpaced arrivals. The shipment that was started on its way December 1, 1944, by sea reached Chungking January 26, 1945. There were no further shipments until \$1.2 million shipped April 14, and this, too, went by sea, arriving June 14, 1945. During this gap of four and a half months with no shipments the free market became more and more panicky.

Again on January 18, 1945, Dr. Kung wrote to Secretary Morgenthau expressing the "urgency of facilitating the shipment of gold to China and the minting of gold tokens for shipment to China." <sup>15</sup> The production of such tokens in one, one-half, and one quarter ounce sizes had been discussed for many months but nothing definite had been done. The Treasury took no action on this urging.

Once more, in a letter of February 26, 1945, Minister Kung reviewed the situation comprehensively. He said that available data showed that sales of gold had covered about one-sixth of the deficit from the commencement of these sales in the latter part of 1943, and the sales had helped to check hoarding and

<sup>14</sup> See previous note.

<sup>15</sup> Diaries, V. 814, p. 301 (exhibit No. 341).

speculation in goods. But American deliveries were so short that the Central Bank was forced to substitute forward sales for spot deliveries of gold. "A black market for spot gold developed, which the Government could not control owing to lack of ready supplies." The deficit had become worse because of the cost of the program of reorganizing the Chinese armies with American aid, the growth of American army operations in China, and the outlay for the newly organized War Production Board proposed by Mr. Donald Nelson. Meanwhile revenues had suffered from Japanese occupation of larger areas. So long as gold was not shipped to China the black market price could only go higher. He pleaded for the shipment at once by air of the undelivered part of the first \$20 million; and a further \$17.5 million by air as soon as practicable plus a further similar lot to be started at once by sea. Finally, he said that the Chinese Government fully realized that gold sales were justified only by the emergency, and that it was anxious to import and sell consumers goods instead. He again urged the early delivery of gold tokens.

In a memorandum of March 2, 1945, to Secretary Morgenthau, Mr. V. F. Coe said that the situation in China was unchanged. "Ambassador Hurley agreed with you on the desirability of holding down gold shipments to approximately the same magnitude as in the past"; i. e., to ship about \$7 million over the next three months. Half of this should be earmarked for promoting the production of tin in West China under an arrangement made with the National Resources Commission of China.<sup>16</sup>

On March 3, 1945, Secretary Morgenthau replied to Dr. Kung's letter of February 26 in part as follows:

"I am sure that you appreciate the many difficulties involved in making arrangements for the export of gold to China. As in every other phase of our activities these days, military necessity takes precedence over everything else.

"I have, however, instructed my men to raise again with the military authorities the possibilities of shipping gold to China during the next few months. They will inform your representatives of their findings on this matter."

As indicating a Chinese reaction, a Chinese official concerned with these negotiations in Washington wrote to a colleague in Chungking on March 2, 1945, that " \* \* \* there is reason to believe that some elements in the Government here would like to 'wait and see' until such questions as the Kuomintang and the Communist Party are settled."

On April 23, 1945, Finance Minister O. K. Yui telegraphed that the delay in shipments reflects on China's credit, saying, "I feel much concerned and distressed." The Central Bank telegraphed April 28, "We cannot overemphasize the serious effect in consequence Doctor White's default in meeting its [sic] obligations."

Meanwhile the gold market in China was getting out of hand. The Chinese government was in a dilemma. On the one hand, maintenance of the official price for gold in the face of mounting inflation led to too little return from sales. On the other hand, to raise the price was always a shock to confidence and was likely to be followed by a sharp jump in the free market so long as the Government did not have a stock of gold to sell in order to control the price. And such jumps in the free market price invariably tended to be reflected in the increase of commodity prices in general. But despite this difficulty the Chinese government delayed too long, until March 30, 1945, in raising to C\$35,000 the official price of C\$24,000 per ounce set on November 13, 1944. When, on the latter date the official price was raised to C\$35,000, which was just under the level of the free market at the time, the Bank still lacked a supply of gold to control the free market. As a result the free price jumped upward to C\$60,000. It was charged in some of the press in Chungking that insiders had advance knowledge of the rise and profited accordingly, but the Central Bank steadfastly denied this. They stated that the only large buyer immediately before the rise was a commercial company which had just received a down payment on a substantial order to be produced for the government, and was buying gold to hedge against the expected increase in its costs.

The whole question of gold sales came to a head in May 1945, after Foreign Minister T. V. Soong came to Washington, he having been attending the San Francisco Conference on organization of the United Nations. Dr. Soong presented the matter to President Truman, who referred the request for gold and also for consumers goods to check the inflation to the Treasury, asking them to consult the Department of State and the War Department. In a conference

<sup>16</sup> Diaries, V. 824, p. 230 (exhibit No. 342).

<sup>17</sup> Diaries, V. 825, p. 171 (exhibit No. 343).

on the gold situation with these departments on May 1, 1945, Secretary Morgenthau said: "We've made it just as difficult for the Chinese to get it as possible, that being a sort of joint policy."<sup>18</sup>

Representatives of these departments tended to agree with the Treasury view of the matter, but undertook to give serious consideration to shipping consumers goods, especially textiles.

At this point the Treasury interjected a new idea. In a communication to Secretary Morgenthau of April 27, 1945, Mr. V. F. Coe proposed trying to get the Chinese government to use the funds they had left from the \$500 million loan and also balances acquired from sales of currency to the American army to build up a special fund of \$500 million for postwar reconstruction of China's finances and economy.<sup>19</sup>

On May 8, 1945, a Treasury conference considered a draft memorandum for Dr. Soong. This stated that shipment of textiles and trucks was being considered; and that China should adopt an anti-inflation program comprising monetary, banking, fiscal, and administrative reforms and stabilization of foreign exchange. The memorandum recommended that China set up a "Currency Stabilization Fund" of \$500 million to be used for purposes to be jointly agreed with the Treasury. It further suggested that China consider stopping the forward sales of gold, a program about which the Treasury had not been consulted, but said that the Treasury would try to make available limited quantities of gold. This gold, however, ought to be financed from assets other than the proposed \$500 million stabilization fund. This fund should be constituted from what remained of the \$500 million loan, i. e., \$240 million. The memorandum went on to say that "China should investigate and cancel sales to speculators and illicit purchasers," saying that "It is most unfortunate that the impression has arisen in the United States that the \$200 million of U. S. dollar certificates and bonds and the gold sold in China have gone into relatively few hands with resultant large individual profits and have failed to be of real assistance to the Chinese economy."<sup>20</sup>

Beginning on May 8, 1945, Dr. Soong conferred with Treasury, State, and War Department officials. When on May 8 the memorandum was read to Dr. Soong, he asked how he could combat the inflation with the \$500 million fund. He then said that he had come from the San Francisco Conference to settle matters in Washington. He read the communication of July 23, 1943 (quoted above), in which the Treasury informed Dr. Kung that the Treasury "agrees to the request \* \* \* that \$200 million be made available \* \* \* for the purchase of gold," and agreed that "the necessary action will be taken to consummate" China's requests for transfers of funds to buy gold. Secretary Morgenthau expressed surprise, thinking that this arrangement referred to only \$20 million, but was informed that it was \$200 million. He said that the Treasury had not envisaged future sales, but Dr. Soong pointed out that China made no commitment to consult when they sold gold. Dr. Soong said that he would raise the gold price and tax those who had bought gold for future delivery—a commitment which later was strictly carried out and a 40-percent tax imposed in the Fall of 1945. In response to the Secretary's statement that he (Morgenthau) had tried to keep quiet the abuses in China, Dr. Soong said that he had nothing to hide—if there had been anything wrong it should be investigated, and he had so told Chiang Kai-shek.<sup>21</sup>

Dr. Soong discussed the proposed delivery of textiles and goods to China, remarking that, "The country that first got beaten up by the aggressor will be the last to be rescued."<sup>21</sup>

On May 9 Secretary Morgenthau thrashed out the subject at a conference with his staff. He said: "\* \* \* you put me in an absolutely dishonorable position, and I think it's inexcusable." He said he does so many things that he could not be expected to remember his letter of July 23, 1943, and that it was their responsibility to know of it. All present agreed that lack of transport, which had been repeatedly mentioned to the Chinese, was a "thin excuse."<sup>22</sup> In the course of these discussions among the staff, Mr. White admitted that the Treasury had "absolutely no legal grounds" for delaying shipments. He said: "We have

<sup>18</sup> Diaries, V. 843, p. 106 (exhibit No. 344).

<sup>19</sup> Diaries, V. 841, pp. 263-264 (exhibit No. 345).

<sup>20</sup> Diaries, V. 845, p. 170-179. The text of the memorandum is printed in U. S. Relations With China, pp. 504-505 (exhibit No. 346).

<sup>21</sup> Diaries, V. 845, p. 232 et seq.

<sup>22</sup> Diaries, V. 845, p. 314-317 (exhibit No. 347).

been successful over two years in keeping them down to twenty-seven million." Mr. Morgenthau further said:

"I think that the Army and State Department have advised me very badly on this thing last week and suddenly Will Clayton woke up to that fact himself, entirely on his own. \* \* \* <sup>23</sup>

Despite the Secretary's attitude, Mr. White and some of his associates prepared a draft memorandum for Mr. Morgenthau addressed to the President of which they had sent a copy to the State Department for clearance, suggesting that an effort be made to get China to "withdraw for the time being her request for immediate heavy shipments of gold." The report of the discussion reads:

"H. M., Jr. The first thing I want, please call up whoever has a copy at the State Department. I want them immediately withdrawn, immediately. I'm not going to follow this position. It's ridiculous. Will you please, wherever they are, get them right back?

\* \* \*

"H. M., Jr. I mean, you just keep going over the same ground, the same ground, the whole time. This doesn't make it plain to the President of the United States that these people own this gold, that I, over my signature, told them they could have two hundred million dollars' worth of gold.

"Mr. WHITE. That's where I disagree.

"H. M., Jr. I know you do." <sup>24</sup>

Mr. Morgenthau decided that in sending to China large amounts of gold, he should have the backing of the State Department and the approval of the President. He obtained a memorandum of May 16, 1945, from Mr. Clayton, which was confirmed in a letter of the same date from Acting Secretary Grew. That letter, while expressing doubt as to the effectiveness of the sale of gold, stated:

"The Chinese Government believes, however, that the immediate political and psychological as well as real economic effects of a continued and accelerated gold sale policy will have a vital importance in the critical situation confronting it, and strongly requests the delivery of the gold in question in accordance with the terms of the understanding between the two governments of July 1943. Since there appears to be no doubt that the Chinese Government attaches a greater importance to the immediate delivery of the gold then to the longer run benefits which might result from the establishment of the fund which you have proposed and since the continued stability of China and her increasing military efforts in the war against the common enemy are of great concern to the United States, the Department recommends that the Treasury, if transportation is available, deliver the gold to China in accordance with the time schedules put forward by Dr. Soong." <sup>25</sup>

After obtaining the approval of President Truman, Mr. Morgenthau on May 16, 1945, wrote to Dr. Soong that the Treasury would authorize shipment of the remaining gold in accordance with the schedule requested by Dr. Soong. The letter, however, went on to question the effectiveness of gold sales:

"As you know, it is my opinion that the sale of gold by China has not proved effective in combating inflation, and I am doubtful that it will prove effective. Also as I have told you, the manner in which the gold sales have been conducted and the consequent public criticism of them in China are not conducive to achieving the purposes for which our financial aid was granted." <sup>26</sup>

The Secretary further urged constituting the \$500 million fund, stating that: " \* \* \* the Chinese Government's response to our proposal to institute a \$500 million fund and her conduct of the gold sales program will be important considerations in our financial relations with China." <sup>27</sup>

In these discussions with Dr. Soong, no agreement was reached about the suggested new fund of \$500 million. But on February 26, 1946, the Chinese Supreme Defense Council ordered the setting aside of a fund of that size for eventual monetary stabilization, this being done as a part of the measures taken when China reopened the foreign exchange market at Shanghai.

Despite the promise to accelerate shipments the Treasury continued to send them by sea. Five shipments were made in May and ten shipments in June by sea, the first of which arrived July 17, 1945. Beginning June 16, however, shipments were made by plane, some of which arrived during June and early

<sup>23</sup> Diaries, V. 846, pp. 34-35 (exhibit No. 348).

<sup>24</sup> Diaries, V. 847, pp. 36-37 (exhibit No. 349).

<sup>25</sup> Diaries, V. 847, pp. 144-145; see also U. S. Relations With China, p. 507 (exhibit No. 350).

<sup>26</sup> Diaries, V. 847, pp. 149-150. The text of the letter is given in U. S. Relations With China, pp. 507-508 (exhibit No. 351).

<sup>27</sup> Diaries, V. 847, pp. 149-150 (exhibit No. 351).

July. During the rest of the year further cargo lots arrived—over \$100 million in July—October 1945.

But these massive deliveries were too late to have the effect sought. In June and July 1945, the free market for gold got out of hand. Sales were suspended from June 25 to July 31 because of uncertainty how to deal with the extreme gyrations that took place. In June the free market shot upward from the May high of C\$82,500 to as much as C\$185,000 per ounce. In July the price range was from C\$167,000 to C\$225,000, and the Government announced a 40 percent tax on settlement of forward commitments. On July 31 the official price was raised to C\$170,000. But in August, with Japan finally defeated, the market slumped to C\$75,000 and in September to C\$50,000. This deflation put an end temporarily to the inflation and ushered in a new phase. In September the Central Bank began the liquidation of forward commitments, and for the rest of the year the price settled down around C\$82,500 to C\$100,000.

Review of the record leads to several conclusions and comments:

1. The Treasury clearly was not justified in holding back gold shipment to China as it did. By the summer of 1944 their foot dragging created doubt whether the Central Bank could meet the demand for gold sales. Until then official prices were close to prices in the free market. It was the Treasury's delay that made it impossible for the Bank to sell freely and thus do away with the price divergence, when it began to grow first in August, 1944. Treasury complaint about the divergence was unjustified, when Treasury action was a main cause.

The trouble was compounded in the following months when the Treasury's delay became steadily clearer. This manifestation of lack of American support hurt confidence and aggravated the inflation, thus making it harder for China to hold out during the war and also making postwar reconstruction more difficult.

Certainly the gold sales checked the inflation. In 1943, gold sales did not cover a very large part of the budget, but in 1944, despite the slowing down of American shipments, gold receipts were about C\$16 billion as compared with total expenditures of about C\$152 billion and American Army expenditures in China of about C\$23 billion.<sup>28</sup> In the first quarter of 1945 receipts of about C\$29 billion from gold were said to cover about a quarter of the deficit, despite the fact that these sales were for future delivery and thus realized much less than could have been realized from sale of spot gold. A Chinese Government spokesman stated on June 27, 1945, when gold sales had been temporarily suspended, that they had realized C\$80 billion to date.

China showed a much more flexible policy in setting the official prices for gold than it did in sticking to the exchange rate of 20-1 throughout the war. Clearly, the American Treasury should have furnished the gold as rapidly as China could sell it, in addition to providing a reasonable stock on hand in case of increase of demand. Gold shipments from the United States, arrivals in India, and then in China, tended, when they occurred, sporadically, to check the rise in the free market price. Had an adequate amount always been on hand, there would have been a helpful psychological gain, both because of presence of the gold and the evidence of American support of China. Also had the Treasury cooperated in shipping gold it would have been in a good position, had it been necessary, to press informally for a policy to raise the maximum amount from gold sales.

2. Why this unfavorable attitude toward China? The Treasury had the general acquiescence of the State and War Departments in its attitude. There were several contributing factors which played their part, though they by no means justified the American Government's policy on gold shipments to China.

- (a) China's hard bargaining and reluctance to make realistic arrangements to meet American army costs in China, as to which no settlement was reached until December 1944. All through 1943 the Army bought Chinese currency at 20-1, the official rate. This rate was only six times the prewar rate of about 3.3-1, though average prices in China in 1943 were 70-200 times the prewar level. The American officials concerned felt that expenditure of about \$140 million in 1943 to buy Chinese currency at 20-1 imposed an unfair cost on the United States. On the other hand, the Chinese Government feared that to change the official exchange rates would badly hurt confidence.

After the Cairo conference of President Roosevelt and Generalissimo Chiang Kai-shek the Chinese felt that the President had promised financial support,

<sup>28</sup> The figure for Chinese Government expenditures is taken from a book in Chinese by Chang Wei-ya, *Money and Finance of China*, 1952, p. 137.

and this affected their taking a strong line in the negotiations. Also some of the tentative understandings reached were ambiguous. But regardless of the merits of the controversy, the resulting American attitude was certainly adverse to China.

(b) China had sold the dollar-backed savings certificates and bonds of \$200 million, secured by \$200 million of the \$500 million loan, far too cheaply. The price had not been raised during over a year from the Spring of 1942, when the purchasing power of Chinese currency fell by two-thirds or more, as measured by average price rises. Also there were charges as to which the writer has no knowledge, that insiders had benefited from these sales. The American officials concerned took the view that China's action about these certificates and bonds did not encourage confidence that the gold would be wisely used. In practice, however, China made a far better record in adjusting the gold price, until subjected to the handicap of slow deliveries from the U. S., that it did with the savings certificates and bonds.

(c) The American officials both in China and Washington felt that China had not fought as effectively as it should after the Spring of 1942. Many of them expected far too much from China. They did not sufficiently realize the exhaustion and disorganization caused by fighting the Japanese alone for four and a half years, the subtle damage from inflation, the inability to do much against a modern mechanized Army without adequate equipment and training, possible subconscious reaction in China that American oil and scrapiron had helped Japan to fight China, and the fact that opinion in China tended toward welcoming a respite and temporary stalemate because of the terrible outrages inflicted by Japanese armies during the military campaign.

3. Allowing for the above factors, American policy nevertheless should have clearly recognized the need to sustain the Nationalist Government as the recognized government that had almost miraculously held off the Japanese alone at the cost of enormous sufferings; as the best hope for participation in the war when China's rescue became militarily possible; and as the only organization to which the U. S. could look for development after the war of a moderate democratic regime in China.

As early as 1941, Chiang Kai-shek had correctly stated that the difficulties of China were as much or more economic and financial than military, and General Wedemeyer after he supplanted General Stilwell had reached a similar conclusion. Hence, from 1941 onward and even before, American aid in the checking of inflation should have been made a major American policy concerning China. There was need to sell actively and effectively in China everything that could be sold to reduce dependence on printing press money. These sales should have comprised, besides gold and dollar-backed securities, import and sale of consumers goods as soon as a modest beginning could have been made in their import. At a fairly early stage of the development of air transport over the Hump, priorities should have been given for moderate imports of consumers goods of small bulk and high value. The writer worked out lists of 100 or 200 tons of such goods that could have been gradually imported and advocated them repeatedly. These lists and the purpose intended met with the approval of Army supply officers in China and were forwarded with their recommendation to Washington, but apparently received no consideration.

4. It is hard to understand how the Treasury could have stressed its favorite arguments of lack of transportation facilities and the need to conserve the dollar resources for postwar. As to transport, when the Army wished to expedite the construction of the Chengtu airfields, it agreed without hesitation to help to fly in Chinese bank notes needed to pay for the work. Data as to the weight of these notes are not at hand but it may be estimated that it was of the order of several hundred tons. During 1944 nearly 2,000 tons of banknotes and banknote paper were flown to China over the Hump by the China National Aviation Corporation using planes and pilots provided from the U. S. It is absurd to think that means could not have been found to fly in gold as needed. A million dollars in gold weighs about a ton. The sale of a million dollars worth of gold, at say C\$20,000 per ounce, would have provided about C\$500 million. But a ton of C\$20 banknotes would only amount to about C\$20 million.

As to conservation and postwar, there was no more reason to hold back gold on that account than to have held back troops in wartime because the men would be needed after the war. Certainly gold should have been deemed to be expendable to minimize the ever-present risk that China's acute inflation would gradually pass to the stage of hyperinflation and financial collapse.

5. The record available to the writer does not show specific evidence of the motives of those concerned. But the energetic efforts made by Mr. White, while blocking gold shipments to China, to promote a \$10 billion postwar loan to Russia,<sup>29</sup> make clear a strong anti-Chinese and pro-Russian bias. In any case, the policy of the Treasury (and the Treasury was able to convince the State and War Departments to go along) showed a failure to appreciate the value that was being obtained from the sales of gold, and that could have been obtained had it been possible to pursue cooperatively the sale of maximum amounts at the best prices which could reasonably be gotten in the circumstances. The parallel sales of gold in the Middle East and India suggested that the Treasury must have realized the benefits that thus could have been possible.

Annexed tables: Gold shipments from the United States to China, 1943-47; gold prices, sales and receipts in China, 1943-45.

TABLE I.—*Gold shipments from the United States to China, under Public Law 442 (\$500 million loan to China), 1943-47*<sup>1</sup>

[United States dollar value at \$35 per fine ounce]

Date of arrival in China:

1943:

November-----	\$8, 417, 082. 59
December-----	2, 070, 379. 18

Total 1943-----	10, 487, 461. 77
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1944:

April-----	1, 076, 979. 02
July-----	1, 092, 813. 50
September-----	4, 493, 420. 62
October-----	2, 849, 324. 77
December-----	2, 949, 136. 11

Total 1944-----	12, 461, 674. 02
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1945:

January-----	2, 926, 982. 00
June-----	3, 978, 866. 05
July-----	40, 241, 305. 76
August-----	37, 235, 985. 48
October-----	30, 488, 770. 53

Total 1945-----	114, 871, 909. 82
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1946:

February-----	12, 183, 800. 63
May-----	27, 567, 115. 60
June-----	13, 647, 084. 54
July-----	13, 582, 261. 91

Total 1946-----	66, 980, 262. 68
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1947: April-----	12, 863, 274. 23
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Grand total-----	217, 664, 582. 52
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<sup>1</sup> In addition, on Jan. 18, 1945, there was a transfer to China of \$1,399,947.99 which was delivered to the British authorities in exchange for gold in India for shipment thence to China. Also on Nov. 10, 1948, there was a transfer of \$935,419.03 from the account of China under the 1942 loan to another account of the Central Bank of China with the Federal Reserve Bank of New York. Including these transactions, the total of gold acquired by China was \$219,999,949.54.

Data are from the Federal Reserve Bank of New York.

<sup>29</sup> Diaries, V. 808, pp. 196-197, January 9, 1945 (exhibit No. 352).

TABLE II.—*Gold prices, sales, and receipts in China as per available data, 1943-45*

## SALES BY FARMERS BANK OF CHINA

Date	Official price per ounce <sup>1</sup>	Free market price in Chungking			Sales		American gold shipments received in China
		High	Low	Average	Ounces	Value in United States dollars, approximate	
1943—September.....	C\$11,200	-----	-----	C\$12,300	180	US\$6,300	-----
October.....	11,300	-----	-----	11,680	415	14,500	-----
November.....	12,100	-----	-----	13,000	5,909	207,000	US\$8,417,084
December.....	13,000	-----	-----	14,250	2,896	101,500	2,070,878
Total.....	-----	-----	-----	-----	-----	329,300	10,487,462
1944—January.....	14,000	C\$15,500	C\$13,500	14,000	6,225	218,000	-----
February.....	18,200	21,200	15,200	19,444	17,258	605,000	-----

## SALES BY THE CENTRAL BANK OF CHINA

1944—March.....	C\$18,500	C\$21,000	C\$20,000	C\$20,242	31,000	US\$1,087,500	-----
April.....	18,500	19,500	18,500	18,650	17,500	613,000	US\$1,076,979
May.....	18,500	19,300	18,800	18,880	58,900	2,062,000	-----
June.....	18,500	19,000	18,800	18,830	60,500	2,118,000	-----
July <sup>2</sup> .....	{ 18,500 17,500 }	18,500	17,500	18,048	125,500	4,393,000	1,092,814
August.....	17,500	23,000	17,500	19,587	51,400	1,800,000	-----
September <sup>2</sup> .....	19,250	28,000	17,500	22,577	150,300	5,260,000	4,493,421
October <sup>2</sup> .....	21,000	24,500	19,000	22,587	205,000	7,175,000	2,849,323
November <sup>2</sup> .....	{ 21,000 24,000 24,000 }	36,600	24,800	29,590	217,000	7,600,000	-----
December.....	24,000	36,600	31,500	34,619	91,000	3,185,000	2,949,136
Total.....	-----	-----	-----	-----	-----	36,116,500	22,949,136
1945—January.....	24,000	35,600	33,800	34,517	295,000	10,325,000	2,926,982
February.....	24,000	39,000	33,700	36,000	334,000	12,390,000	-----
March <sup>2</sup> .....	{ 24,000 35,000 }	60,000	38,000	44,188	509,000	17,815,000	-----
April.....	35,000	83,000	60,000	75,140	264,000	9,240,000	-----
May.....	35,000	82,500	78,000	80,920	306,500	12,775,000	-----
June <sup>2</sup> .....	{ 35,000 50,000 }	185,000	88,800	121,370	467,000	16,345,000	3,978,866
July <sup>2</sup> .....	170,000	225,000	167,000	198,840	( <sup>3</sup> )	( <sup>3</sup> )	40,241,306
August.....	170,000	172,000	75,000	115,960	( <sup>3</sup> )	( <sup>3</sup> )	37,235,985
September <sup>2</sup> .....	{ 170,000 89,000 }	89,000	50,000	70,000	( <sup>3</sup> )	( <sup>3</sup> )	-----
October.....	89,000	90,000	82,500	83,828	( <sup>3</sup> )	( <sup>3</sup> )	30,488,771
November.....	89,000	100,000	86,000	91,792	-----	-----	-----
December.....	89,000	89,400	83,500	84,548	-----	-----	-----
Total.....	-----	-----	-----	-----	-----	-----	114,871,910

<sup>1</sup> Prices in the 1st column through February 1944, are average prices per ounce realized by the Farmers Bank of China. Thereafter they are official prices of the Central Bank of China. Prices and amounts sold are in Chinese ounces or taels equal to 1.00471 standard Troy ounces.

<sup>2</sup> Official prices were changed on the following dates: July 16, 1944; Nov. 13, 1944; Mar. 30, 1945; June 8, 1945; July 31, 1945; and Sept. 28, 1945. In September–November 1944, buyers were obliged to buy Chinese Treasury notes for 10 percent and later 20 percent of the value of gold bought, until Mar. 30, 1945. During July 1945, until July 30 sales were suspended.

<sup>3</sup> Not available.

Mr. MORRIS. I think, Senator, it will not be necessary for Dr. Young to read it into the record. What with the Senate being in session today, Dr. Young realizes that we have to move as quickly as possible and, therefore, I am asking you to let it go into the record as it was prepared by Dr. Young.

Now, I also have here, Senator, some statistics which are supporting data for the memorandum. I would like those described by Mr. Jonathan Mitchell, who has been working on this project for the Internal Security Subcommittee and who has been previously sworn, Senator.

Mr. MITCHELL. The subcommittee has received from the Federal Reserve Bank of New York the record of shipments of gold made to China from September 28, 1943, through to February 2, 1947. This record of shipments gives their dollar value, the number of fine ounces, and the date on which these shipments were received in Chungking by the Central Bank of China.

Mr. MORRIS. Mr. Mitchell, those are the statistics that support the various statements that Dr. Young made?

Mr. MITCHELL. Yes, sir, they do.

Mr. MORRIS. Senator, they may go into the record, may they not?

Senator BUTLER. Yes. They will be made part of the record.

(The documents referred to were marked "Exhibits Nos. 330 and 330-A and are as follows:)

## EXHIBIT No. 330

*Gold shipments from the United States to China under Public Law 442 (\$500 million loan to China), by months, 1943-47<sup>1</sup>*

[United States dollar value at \$35 per fine ounce]

## Date of arrival in China :

1943 :

November-----	\$8, 417, 082. 59
December-----	2, 070, 379. 18

Total, 1943-----	10, 487, 461. 77
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1944 :

April-----	1, 076, 979. 02
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September-----	4, 493, 420. 62
October-----	2, 849, 324. 77
December-----	2, 949, 136. 11

Total, 1944-----	12, 461, 674. 02
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1945 :

January-----	2, 926, 982. 00
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July-----	40, 241, 305. 76
August-----	37, 235, 985. 48
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Total, 1945-----	114, 871, 909. 82
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1946 :

February-----	12, 183, 800. 63
May-----	27, 567, 115. 60
June-----	13, 647, 084. 54
July-----	13, 582, 261. 91

Total, 1946-----	66, 980, 262. 68
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1947 : April

12, 863, 274. 23

Total, 1947-----	12, 863, 274. 23
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Grand total-----	217, 664, 582. 52
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<sup>1</sup> In addition, on Jan. 18, 1945, there was a transfer to China of \$1,399,947.99 which was delivered to the British authorities in exchange for gold in India for shipment thence to China. Also on Nov. 10, 1948, there was a transfer of \$935,419.03 from the account of China under the 1942 loan to another account of the Central Bank of China with the Federal Reserve Bank of New York. Including these transactions, the total of gold acquired by China was \$219,999,949.54.

## EXHIBIT No. 330-A

*Gold prices, sales, and receipts in China as per available data, 1943-45*

## SALES BY FARMERS BANK OF CHINA

Date	Official price per ounce <sup>1</sup>	Free market price in Chungking			Sales		American gold shipments received in China
		High	Low	Average	Ounces	Value in United States dollars, approximate	
1943—September.....	C\$11, 200			C\$12, 300	180	US\$6, 300	-----
October.....	11, 300			11, 680	415	14, 500	-----
November.....	12, 100			13, 000	5, 909	207, 000	US\$8, 417, 084
December.....	13, 000			14, 250	2, 896	101, 500	2, 070, 378
Total.....						329, 300	10, 487, 462
1944—January.....	14, 000	C\$15, 500	C\$13, 500	14, 000	6, 225	218, 000	-----
February.....	18, 200	21, 200	15, 200	19, 444	17, 258	605, 000	-----

## SALES BY THE CENTRAL BANK OF CHINA

1944—March.....	C\$18, 500	C\$21, 000	C\$20, 000	C\$20, 242	31, 000	US\$1, 087, 500	-----
April.....	18, 500	19, 500	18, 500	18, 650	17, 500	613, 000	US\$1, 076, 979
May.....	18, 500	19, 300	18, 800	18, 880	58, 900	2, 062, 000	-----
June.....	18, 500	19, 000	18, 800	18, 880	60, 500	2, 118, 000	-----
July <sup>2</sup> .....	{ 18, 500 17, 500 }	18, 500	17, 500	18, 048	125, 500	4, 393, 000	1, 092, 814
August.....	17, 500	23, 000	17, 500	19, 587	51, 400	1, 800, 000	-----
September <sup>2</sup> .....	19, 250	28, 000	17, 500	22, 577	150, 300	5, 260, 000	4, 493, 421
October <sup>2</sup> .....	21, 000	24, 500	19, 000	22, 587	205, 000	7, 175, 000	2, 849, 323
November <sup>2</sup> .....	{ 21, 000 24, 000 }	36, 600	24, 800	29, 590	217, 000	7, 600, 000	-----
December.....	24, 000	36, 600	31, 500	34, 619	91, 000	3, 185, 000	2, 949, 136
Total.....						36, 116, 500	22, 949, 136
1945—January.....	24, 000	35, 600	33, 800	34, 517	295, 000	10, 325, 000	2, 926, 982
February.....	24, 000	39, 000	33, 700	36, 000	354, 000	12, 390, 000	-----
March <sup>2</sup> .....	{ 24, 000 35, 000 }	60, 000	38, 000	44, 188	509, 000	17, 815, 000	-----
April.....	35, 000	83, 000	60, 000	75, 140	264, 000	9, 240, 000	-----
May.....	35, 000	82, 500	78, 000	80, 920	306, 500	12, 775, 000	-----
June <sup>2</sup> .....	{ 35, 000 50, 000 }	185, 000	88, 800	121, 370	467, 000	16, 345, 000	3, 978, 866
July <sup>2</sup> .....	170, 000	225, 000	167, 000	198, 840	( <sup>3</sup> )	( <sup>3</sup> )	40, 241, 306
August.....	170, 000	172, 000	75, 000	115, 960	( <sup>3</sup> )	( <sup>3</sup> )	37, 235, 985
September <sup>2</sup> .....	{ 170, 000 89, 000 }	89, 000	50, 000	70, 000	( <sup>3</sup> )	( <sup>3</sup> )	-----
October.....	89, 000	90, 000	82, 500	83, 828	( <sup>3</sup> )	( <sup>3</sup> )	30, 488, 771
November.....	89, 000	100, 000	86, 000	91, 792			-----
December.....		89, 400	83, 500	84, 548			-----
Total.....							114, 871, 910

<sup>1</sup> Prices in the 1st column through February 1944, are average prices per ounce realized by the Farmers Bank of China. Thereafter they are official prices of the Central Bank of China. Prices and amounts sold are in Chinese ounces or taels equal to 1.00471 standard Troy ounces.

<sup>2</sup> Official prices were changed on the following dates: July 16, 1944; Nov. 13, 1944; Mar. 30, 1945; June 8, 1945; July 31, 1945; and Sept. 28, 1945. In September–November 1944, buyers were obliged to buy Chinese Treasury notes for 10 percent and later 20 percent of the value of gold bought, until Mar. 30, 1945. During July 1945, until July 30 sales were suspended.

<sup>3</sup> Not available.

Mr. MORRIS. Generally, Dr. Young, the fact of the matter is that China did not, as a matter of fact, receive the gold that it expected to receive during this period and that failure to receive the gold was a cause of inflation.

Mr. YOUNG. Well, there was a definite foot-dragging on the part of the Treasury in the shipment of the gold to China, and the delays in shipment proved very embarrassing because the gold began running out and the Chinese Government had no option but to sell for forward delivery which was not nearly as satisfactory as selling spot gold.

As a result of that, it was unable to control the black market or the free market, I should say, for gold, because it had no gold to sell in the free market for spot gold. It could only sell forward.

Mr. MORRIS. Dr. Young, at that time were you concerned with the so-called White plan for an International Monetary Fund?

Mr. YOUNG. I was. That was first received in China along with the British plan prepared by Lord Keynes in the early part of 1943. That plan was referred to me by the Chinese Government and, along with others, we had many conferences on the subject. We prepared some counterproposals. We thought that both the White plan and the Keynes plan were lacking in meeting the situation of China and of other countries whose finances had been disrupted by invasion and war.

So, the general line that the Chinese Government took in these negotiations, which was based on my recommendation and the recommendations of others concerned, was that those plans ought to be amended so as to be better adapted to the finances of the countries that had suffered so severely from invasion. And we pressed that throughout.

The Chinese Government, through the Chinese Ambassador, submitted a full statement on this subject suggesting that the plan should be amended to give more elasticity, and as far as we could see, that received no consideration whatsoever by the Treasury.

We did, however, follow up the matter at the Conferences at Bretton Woods, and at the Bretton Woods Conferences we did succeed in getting some modifications into the agreement before it was finally concluded, which were much more flexible, so-called transitional measures, and that made it more flexible so that countries like China that had suffered severely from the war would have a period of time to rehabilitate their finances, if they could, and then go into the fund with stable rates of exchange.

But, in short, we felt that a country that suffered from extreme inflation could not move right away into stable rates of exchange without going through a period of financial rehabilitation, and we felt that financial rehabilitation was a necessary prerequisite to the proper operation of these funds.

Senator BUTLER. Doctor, are you qualified to testify in connection with the dragging of the feet generally by the United States Government at that period in the shipment of materiel and other supplies? Do you know anything about that?

Mr. YOUNG. I have a general knowledge of that.

Senator BUTLER. How did you gain that knowledge?

Mr. YOUNG. Because I was adviser to the Chinese Government at that time.

Senator BUTLER. Were you on the grounds?

Mr. YOUNG. I was, at the same time, also a director of the China National Aviation Corp., which was flying in supplies.

Senator BUTLER. What was your experience in connection with the supplying of the Chinese Army and the needs of the Chinese Nationalist Government at that time by the United States Government?

Mr. YOUNG. We were the last on the list, in China, unfortunately. The general war strategy which was devised by the top people on the allied side was that preference should be given to Europe. And after that, of course, came Asia a long way back, the Pacific war and so China unfortunately did not get as many supplies in this early period.

I wouldn't feel qualified to quarrel with that basic strategy, but I did feel at the time, I recall, that it was unfortunate that China was not better supplied than it was, and also I can recall very well that when I was in Washington at different times during the war, I made it my business, almost to the extent of sticking my neck out, to urge on the War Department and the State Department that it was highly important to have a landing in China at the earliest possible date for morale purposes, and to try to check the disintegration that was taking place there.

Also, as early as 1941, I had taken some informal steps, as far as I had any right to do so, to urge the defense of Burma in order to maintain a lifeline to China.

So, to that extent, I did have knowledge and relation to the situation.

Mr. MORRIS. Did you write any confidential memorandum about this international monetary proposition?

Mr. YOUNG. Well, I made a memorandum in the summer of 1943, in connection with the Chinese Government's consideration of this matter, which stated the views that we had arrived at, in our conferences there, on the general lines that I described, stressing monetary rehabilitation as a prerequisite to financial stabilization. And I have that document here. It is at the disposal of the committee if the committee wishes it.

Mr. MORRIS. I would like to have it.

Senator BUTLER. I would like to have that, Doctor. We will make it a part of the record.

Mr. YOUNG. I am very happy to put this in the record, Senator.

(The document referred to was marked "Exhibit No. 331" and reads as follows:)

#### EXHIBIT No. 331

(Memorandum of July 20, 1943, by Arthur N. Young, former financial adviser to China, on the international monetary plans (White and Keynes plans) :)

#### THE INTERNATIONAL MONETARY PLANS

JULY 20, 1943.

I have very carefully studied the American and British international monetary plans, not only from China's standpoint, but also in their broader aspects. In the light of such information as is available, my views are as follows:

1. Neither plan adequately recognizes the need for monetary rehabilitation as preliminary to longer-term stabilization. Many of the world's monetary systems have suffered grievous injury as a result of the war—some (such as China's) more so than others. I am, of course, sympathetic with the desire for the earliest possible exchange stabilization. But, for many countries, the establishment of more or less definitive exchange rates is not the beginning of the proceedings. It is, rather, a chief aim of the first stage; namely, internal financial rehabilitation. It is not realistic to seek exchange stability by making an agreement fixing rates of exchange that purport to be definitive, without giving due regard to whether conditions will permit the rates to be maintained. The basic thing is the fundamental financial condition of the individual nations.

2. Repair of the serious intangible damage to injured monetary systems is a need quite analogous to relief and repair of war devastation—though infinitely more difficult. It will require an all-out effort by the respective countries in a period of exhaustion and psychological reaction. Most of these countries will have to draw upon external resources to bolster their public finances during a transitional period of monetary rehabilitation. Insofar as they themselves do not have adequate external resources, the further provision they need is, in theory, essentially of the same kind as provision of relief. It is to be hoped that such further needed resources can be provided on lease-lend terms, as part of a comprehensive program of internal and external measures for each country that finds itself in this position.

3. Sound theory requires that the resources of any permanent international monetary organization be used as a regulator fund, to aid in maintaining longer-term stability. If the resources intended for this purpose have to be expended to aid in achieving stability, the fund is bound to be depleted and there will be disappointment and frustration. Countries will be wrongly blamed for dissipating resources which, if no other provision exists, they are bound to use for the inescapable needs of monetary rehabilitation.

4. Clearly the solution in the case of many war-smitten countries is frankly to recognize a transitional period of monetary rehabilitation. But purely monetary measures are not enough. The program for this period must include relief, repair of devastation and restoration of productivity—as well as such financial measures as curtailment of military and civil expenditure, rebuilding of the revenue system, debt readjustment, price stabilization, reform of monetary and banking conditions, and improvement of the international balance of payments. For many countries, until these problems are more or less in hand, the fixing of definite exchange rates is putting the cart before the horse. Rates are likely to be crystallized at which international balances of payments cannot attain equilibrium; and either external resources will be drained away or countries will be driven to protect these resources by measures of exchange control which will hamper economic recovery and retard the return of confidence.<sup>1</sup> After countries have restored a considerable degree of internal financial stability there will be a chance to work a longer-run system on the lines of these two plans. The world badly needs such a system, but the difficulties are great, and it would be a pity if the longer-time system were jeopardized by expecting it to start operating as a whole from scratch.

5. At an early date, perhaps very soon after end of the war, the United States and Great Britain, and possibly some other countries, may be ready to agree upon stable rates of exchange among themselves and thus to commence the operation of a longer-term system. It is very desirable that they do so, in order to provide a nucleus of stability. Thereafter other countries could move from the transitional arrangements into the longer-term system. This would be far better than to expect either the American or British plans as they stand to meet the demands of the transitional period. Of course, in the long run, it may be that a large part of the world would become indebted through the proposed organization to the United States and perhaps to some other countries. But this is less likely to develop suddenly, and might be avoided or corrected: (a) if a sound scheme is devised and carried out for the transitional period; (b) if proper arrangements can be made to promote greater freedom of trade, control of basic commodities, and international capital investment; and (c) if proper international measures are adopted to maintain peace.

6. The procedure herein proposed would give opportunity and encouragement for stability. But, in the long run, the possibility of a properly working international monetary system depends largely upon the internal monetary policies of the various countries. Every country in the world now has a managed currency, and, despite any nominal link with gold, this condition is likely to continue. The stability of rates of foreign exchange will depend upon whether the various countries deliberately try to keep their policies of currency management moving substantially parallel. In other words, if one or more countries are following inflationary policies, or if most of the countries should have an inflationary tendency but some were inflating at a greater rate, balances of payment would soon get out of equilibrium. A great virtue in having an organization such as these plans contemplate is that it would help to bring about a common policy. There would be time and opportunity for individual countries to change policies that were putting them out of line with the rest of the world, that would adversely affect other countries, and that, in the long run, would not bring real benefit to the countries themselves.

7. As is clearly recognized by the authors of the two plans, the success of any scheme will be much affected by the degree of success in devising effective international arrangements for relief and economic rehabilitation, expansion of

<sup>1</sup> The idea in the British plan (par. 33) of controlling capital movements but giving "a general permission \* \* \* to all remittances in respect of current trade," which also seems implicit in the American plan, is, I believe, impracticable for general application. China's experience shows that a half-way measure, short of general exchange control, will not work. The permission of current trade would give a loophole for flight of capital, e. g., through exporting goods and leaving the proceeds abroad. Also there could be a flight from the currency by over-importing staple goods for hoarding.

international trade, regulation of basic international commodities, and international investment.

8. The existence of difficulties, of course, does not mean that creation of a comprehensive monetary scheme should not be tried. On the contrary, the need for it is very great, as the authors of the two plans have clearly proven. But it should be realistic, and should not expect too much in the early stages from a world that, financially speaking, will be very sick. The line of progress, I believe, is both to consolidate at the outset such exchange stability as can be soundly established, and gradually to enlarge the area of stability by measures that will promote the recovery of other countries to the point where they can take their places in a general system of stable exchanges.

Mr. MORRIS. Did not this failure to deliver the gold, or this foot-dragging delivery of gold, have a disastrous effect on the fiscal, and therefore, the national survival capacity of the Chinese Government?

Mr. YOUNG. Well, I felt at the time, and I still feel, Judge Morris, that the foot-dragging at that point did have a serious effect in aggravating the inflation. The inflation became very acute just at that period. The lack of gold was not the only factor but, at the same time, if the gold had been there, we could have made a much more serious effort to try to control the situation.

Whenever gold arrived, when it was shipped from the United States, when it arrived in India, when it arrived in China, each of those stages was reported in the press and had an effect of bolstering confidence, but obviously, when the Chinese Government had no gold deliveries in spite of its commitments, in spite of the feeling that it had a promise from the American Government to send it, there was a feeling of lack of American support and consequently it was one of those intangible things but undoubtedly had an effect in hurting the confidence and in stimulating the financial deterioration that was taking place.

We did our best to convince the American authorities to send this gold, but we had no success in spite of their commitments until Dr. Soong came over here in about the latter part of April 1945, I think it was. He came from the San Francisco Conference to Washington especially to plead this matter with Secretary Morgenthau. He did so and succeeded in convincing Secretary Morgenthau that the gold should be sent, but that was very late.

Mr. MORRIS. One more question.

Did not the subsequent monetary chaos have a part in the later Communist victory?

Mr. YOUNG. Well, it undoubtedly did. The financial deterioration of a government is a very serious thing from the point of view of the effect on the morale of the nation as a whole. Of course, there are many factors that entered into that, but certainly, the deterioration before the end of the war could have been checked somewhat—how much, it would be only speculation to say—had the gold been received promptly as desired and requested by the Chinese Government.

Mr. MORRIS. Senator, I have no more questions, but I would like the record to show the very extensive study that Dr. Young has made in connection with the Morgenthau Diaries as they have been made available to him from the records of the subcommittee.

You have been working for 3 or 4 weeks on them, have you not?

Mr. YOUNG. Yes, sir, I have.

Senator BUTLER. It is my understanding that the memorandum that Dr. Young has filed and the supporting data are a result of that study.

Mr. MORRIS. Right, Senator.

Mr. YOUNG. That is correct, Senator.

Senator BUTLER. Dr. Young, I am very grateful to you for the work that you have done and I certainly want to thank you very much for coming here and giving us the time and giving us this testimony.

I also want to say that I am tremendously shocked, after hearing your detailed testimony, supported as it is by the Morgenthau Diaries, about the role that Harry Dexter White and Dr. Chi and Dr. Ludwig Rajchman, all of whom are now Communists, played in this very, very sad story that you have told us this morning. It is really very shocking and I would think it would be shocking to any American.

Mr. YOUNG. Well, Senator, I have tried to tell the facts as I know them and as I found them in these papers. I, of course, have no information, beyond what I have stated, about the motives of any of the individuals who were concerned with this.

Mr. MORRIS. We understand that, Doctor. Thank you very much, sir.

Senator BUTLER. The subcommittee will stand in recess subject to order of the Chair.

(Whereupon, at 12:40 p. m., the subcommittee recessed, subject to order of the Chair.)

(The following excerpts from the Morgenthau Diaries are referred to in footnotes of Dr. Arthur Young's paper on China and Gold, 1942-45, which is published elsewhere in this publication. They are among the Morgenthau documents ordered into public record at this hearing, and are marked "Exhibits 332 through 352.")

#### EXHIBIT No. 332

[Vol. 666, pp. 177-180]

TREASURY DEPARTMENT,  
September 22, 1943.

#### INTEROFFICE COMMUNICATION

To: Secretary Morgenthau.

From: Mr. White.

Subject: Some matters before us that I should like to call to your attention.

1. *Determination of the French franc rate.*—The British and the Army are pressing us for our recommendation as to the franc rate and the type of currency to be used by the Allied forces upon invading France. We have been discussing the matter at some length within the Treasury and we are now ready to submit our recommendations for your consideration. McCloy has called a meeting for Friday morning with State and the British participating. I should very much like to discuss the matter with you before that meeting.

2. The Army is also pressing us for recommendations with respect to similar matters in Belgium, Holland, Norway, and Greece. We are ready with our recommendations on those too but if you do not have time to discuss them we can, I believe, get McCloy to postpone discussion of those particular points.

3. *Renewal of the \$50 million Chinese stabilization loan.*—We have had a number of conferences with the Chinese delegation on this matter. The provisions in the earlier stabilization loan which the Chinese now want changed are not as drastic as they had led us to believe and we should find no difficulty in coming to an agreement with them. However, we have serious doubts whether we ought to renew the agreement with the present official dollar-yuan rate

being so much out of line with its real value. We should like to discuss our recommendation with you soon inasmuch as the Chinese are pressing us for a decision. This matter, however, can wait until next week. We may even be able to postpone it until you return. We would like to stall as long as possible but don't wish to do so until we have discussed the matter with you inasmuch as the Chinese are pressing us for action.

4. *The Dutch request for lend-lease of silver coins for the Netherlands remains unsettled but both the Army and the Dutch Government are pushing us.*—I think that we are rather in a weak position to refuse the Dutch request and I should like to raise this question with you again. We have, upon investigation, found that they are asking for more silver than they have ever had in circulation. In our last discussion with them they agreed that 17 million ounces would be adequate instead of the 45 million they originally requested. The Army is leaving this decision wholly to us but the time has arrived when we have got to say either no or yes.

5. *International Bank Proposal.*—We have had a number of extended conferences on the international bank plan proposal and are making more progress than I expected and are finding the task of agreement among the various technicians easier than I had expected. I believe now that it is desirable to have a meeting with the Congressional committees certainly before you go and to present to them the Bank Plan though the discussion at the meeting can encompass both the revised Fund Plan and the Bank.

There are two hurdles which must be crossed if possible within the next few days: (1) Calling of your Cabinet Committee—Eccles, Crowley, Jones, and Berle to approve the plan as a committee, (2) get the President's approval to inform the Congressional committees of the tentative proposal and to send it to the respective Ministers of Finance as an unofficial technical proposal for their consideration just as we did with the International Stabilization Fund proposal.

We are having our final meeting of the technical committee this afternoon and I am hoping you can arrange for a meeting with your Cabinet group Friday afternoon if possible, if not, Monday or Tuesday morning of next week.

If you obtain the green light from the President on the Bank Plan we propose to print copies of the plan with a foreword from you which we are preparing similar in character to the pamphlet on the International Stabilization Fund.

6. *Conferences on the International Stabilization Fund proposal.*—We have had several conferences with Keynes and two formal largely attended meetings with the British delegates. I think that we can meet their counterproposals on some of the points they raise and partly meet their suggestions on other points but I feel that there are two important points upon which we cannot go along with them. We are still discussing the matter and I should like to discuss the matter with you as soon as the first phase of our discussions is over.

We have completed a draft of a sizable booklet of Questions and Answers relative to the Stabilization Fund. We are designing the booklet for technical experts and we should like to print them using a short foreword from you which we are preparing.

We are preparing a draft of a statement you may wish to make before the appropriate Senate and House Committees on both the Stabilization Fund and the International Bank.

7. *British reciprocal lend-lease of raw materials.*—You have received a reply from the British Chancellor to your communications with respect to the proposal for reciprocal lend-lease of raw materials. On the whole they accept our counterproposals to their original suggestion. However, it is doubtful whether in practice the mechanism which the British wish to use will work smoothly. Representatives of OEW are now engaged in discussions with the British to see whether the mechanism suggested by the British will work satisfactorily. If the OEW is satisfied with the results they think they can obtain, there still remains the task of successful negotiations with the Indian, Australian, and South African Governments. These are being initiated but a successful outcome does not look very promising.

8. *British International Dollar Position.*—The British Government has submitted a memorandum of their international dollar position with a view to convincing us that we ought to let their gold and dollar balances continue to increase. They regard this memorandum as very important. We are having another meeting soon of the committee on this British position and unless I hear to the contrary from you I am taking the position you outlined a month ago, namely, that we must cut down their dollars unless the President orders otherwise and

that you will not raise the question with the President unless the State Department or Lend-Lease specifically requests us to do so.

9. *Saudi Arabia*.—The State Department has requested us to take up with the British the problem of the joint handling of the Saudi Arabia monetary arrangements which up to now was being dealt with Saudi Arabia and the British Government. We have conferred with the British on this matter and they are agreeable to the proposal and are going to give us information as to what they have done so far. I should like to discuss the matter with you when we have any definite recommendations to make.

10. *Gold Sales*.—We are now engaged in rather extensive operations of selling gold in Iran, Iraq, Egypt, Syria, Palestine, and India. Hitherto we have paid in local currency in line with our regular policy. From now on we shall be buying currency at rates lower. In each case we have made the arrangements with the approval of the particular Government involved. It involves about \$20 million sale of gold to those areas in the next three months and the amount is likely to grow if our activities in the Middle East and India increase. Mr. Bell has approved these gold transactions. Though the totals are not large compared with our gold holdings they do represent increased holdings of gold in those areas by individuals rather than central banks, gold which you felt was desirable at this time.

11. *Shipments of gold to China*.—China has asked us for \$50 million worth of gold in accordance with your promise to make the gold available. I have taken the position that the gold is available as rapidly as they can ship it. We have arranged to ship from one to two tons a month by Army Air transport.

The Chinese have asked us to arrange with the British if we could for China to get gold either in India or South Africa in exchange for gold or dollars that we would give the Indian or South African Governments in New York. The British Treasury reported that they have made the request and that that could not be arranged either for India or South Africa. The Chinese asked me to make a similar request of the Russian Government which I have via Gromyko. Gromyko has not yet given me an answer.

The Mint has made a request to the Chinese that the design for a large gold coin use the United States Mint on one side and the Chinese engraving on the other. These designs have been forwarded to Chungking for possible approval.

12. *Looted Gold*.—I have not heard from you with respect to your reaction to our proposal for a public Treasury statement on the purchase of possibly looted gold. If favorable action is to be taken on this matter it should be done within the next few months.

13. *Canadian Dollar Position*.—The Army pressed us for approval of the cancellation of \$86 million worth of Canadian contracts designed to reduce Canadian balances to replace the Army calling for resale to Canada of \$50 million worth of armaments. We have already approved the latter arrangement but the Canadians reversed themselves and our Army agreed with the Canadian's reversal. The Army claimed that the delay in our approval would cost us a million to \$2 million. I took the matter up with D. Bell and he approved so we gave the Army our approval last Saturday.

14. *Release of McDaniels blocked sterling*.—The British informed us that McDaniel is not the legal owner to the blocked sterling he wanted us to get released for him. McDaniel claims that he filed evidence of his legal title with the State Department. We are checking with the State Department and will discuss the matter with you before taking any further action with the British.

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#### EXHIBIT No. 333

[Vol. 668, pp. 68-69]

Memorandum for the files.

MEETING IN THE SECRETARY'S OFFICE, SEPTEMBER 29, 1943, 11:45 A. M.

I informed the Secretary that there were four points raised in a memorandum to him dated September 22, 1943, which were pressing and required a decision from him, as follows:

1. The renewal of the \$50,000,000 stabilization loan to China. I explained the predicament we were in with respect to the renewal at the present 5-percent rate and stated that we in the Treasury were agreed that we

should not renew a stabilization agreement until the prevailing official rate of exchange more closely approximated its real value. I pointed out that we would be getting into increasing difficulties if we took a step which purportedly helped to maintain so artificial a rate.

The Secretary agreed. I said that after consulting with the State Department I should like to inform the Chinese of our views on that matter. I said that I thought that they would act unfavorably to it but I did not see any alternative that we have. The Secretary agreed and said go ahead.

2. I then raised the question of satisfying Kung's cabled request that we earmark \$200 million of gold out of the amount remaining from the \$500 million (paragraph 11 on page 4 of the memorandum). I said that I thought that we ought to be tough with the Chinese on the question of earmarking \$200 million of gold for gold sales which they could not make before the gold could be shipped to them. The Secretary agreed. He said that he thinks that we should be tough in this matter and he told me to go ahead and let them have the gold only as rapidly as it could be shipped and sold in China.

3. I again raised the question of lend-lease silver coins to the Dutch Government (paragraph 4 in the memorandum). The Secretary gave his approval to our recommending that the 17 million ounces of silver be lend-leased.

4. I stated that the British dollar position would not be significantly altered by the reciprocal lend-lease arrangements now being negotiated, that by the end of the year they would have over a billion and a half dollars, though the British claimed some offsetting liabilities of several hundred million. I thought that the time had come to take a strong position to reduce the lend-lease of nonmilitary goods, if we were to follow out the recommendations we had made to the President, and the President approved last year. I suggested the Secretary call Mr. Crowley and arrange a meeting to discuss the matter. Secretary said that it will have to wait. I said that if we do not take it up this week it will probably have to wait a month. He said that was all right, it could wait.

H. D. WHITE.

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EXHIBIT No. 334

[Vol. 682, pp. 83-88]

CHUNGKING,

Dated December 1, 1943.

Rec'd 9:42 a. m., 2nd.

GM: This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

SECRETARY OF STATE,

*Washington.*

2297, December 1, 9 a. m.

To Secretary of the Treasury from Adler.

Weekly economic.

Section One.

One. Chungking prices: September wholesale general 17,140, food 10,660, retail general 13,330, food 9908; October 18,030, 11,350, 14,320, and 10,710. Increases from August to October 9, 7, 14, and 18 percent, respectively. Average of retail price indices of loading cities August general 15,450, food 13,020; September 16,190 and 14,280. Apparent decline in rate of increase in prices due to adequate harvest, good military news from other theatres, tighter money policy of banks partly associated with selling out of United States dollar backed certificates and bonds, and favorable psychological effects of announcement of government purchase of gold from the United States. Since imposition of Chinese National currency three dollars per catty war time surtax on salt on October 1 price has risen from \$6.30 to \$9.60 per catty.

Two. October payments of board to Central Bank under November 1 agreement: United States dollars 1,817,000, sterling 170,000. Central Bank's receipts of foreign exchange granted "special" rates from May to August United States dollars 6,483,000, sterling 681,000.

Three. Kunming black market rates November 20 United States dollars 84, Indian rupees 31. United States dollar backed savings certificates now selling at 53 per United States dollar if due and 37 if maturing on August 4, 1944.

Four. Selling price of gold per Chinese ounce highest in Kunming and Chengtu where it is over Chinese National currency 12,000. It is \$11,500 in Chungking and lowest in Heng where it is over 8,000.

Five. Receipts from land tax in kind of 34,800,000 piculs and from compulsory purchases 31,200,000 up to October 15 or a total of 66,000,000, which is slightly above estimates. Szechwan accounted for about  $\frac{1}{4}$ , Huanan for  $\frac{1}{6}$ , and Kiangsi for  $\frac{1}{6}$  of total.

GAUSS.

CHUNGKING,  
Dated December 1, 1943.  
Rec'd 12:21 a. m., 2nd.

EAK: This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SG-00)

SECRETARY OF STATE,  
Washington.

2298, December 1, 10 a. m.

One: Kung wrote to their man November 23 instructing board to stop purchase and sale of foreign exchange from November 30 and informing him that business previously transacted by board will in future be handled by Central Bank and Exchange Control Commission. Understand latter body is being organized with Kung as chairman, K. P. Chen (if he will accept) and Okyui as vice chairman, Jianchen, Pei, Kwok, and Tai of Ministry of Finance as members, and Dr. C. J. Chi as General Secretary.

Two. Board at meeting of November 29 decided to wind up its affairs subsequent to receipt of instructions from Kung. From Adler to Secretary of the Treasury. Re your 1690, November 24, some doubt existed at meeting as to whether affairs could be wound up by year end and I'm accordingly suspending judgment as to date of resignation until matters clearer.

GAUSS.

[Declassified: Treas. ltr. 11/8/55]

CHUNGKING,  
Dated December 1, 1943.  
Rec'd 12 a. m., 2d.

KEM: This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (SC-00)

SECRETARY OF STATE,  
Washington.

2299, December 1, 2 p. m.

One. Notes in circulation September CN 60,450,000,000, October CN 64,377,000,000. Increase from August to October (\*) 14 percent.

From Adler to Secretary of Treasury, (section Two of Embassy's 2297).

Two. Details with regard to sell out of United States dollar backed bonds publicly announced end of October obscure. On October 12 Y. C. Koo informed me that subscriptions for bonds totaled United States 18,000,000 and amount actually bought United States 11,000,000. On October 13 rumor got out that Government was about close sales and there was a rush to buy. On October 15 sales ceased. According K. K. Kwork entire issue was sold out. According to Kung entire issue of bonds was sold out but an amount in neighborhood of United States 30,000,000 was being held presumably by Central Government—for purpose rehabilitating finances of certain provincial governments but he did not want this news to get out lest he be deluged with appeals from other provincial governments.

Three. Budgetary revenues April to September CN 2,040,000,000 of which revenues from taxation accounted for 572,000,000 (pecuniary valuation for receipts from land tax in kind is inexplicably small) monopolies 373,000,000, miscellaneous revenues 53,000,000 and unclassified 1,042,000,000. Expenditures in same

(\*) apparent omission.

period totaled 15,485,000,000 of which military expenditures accounted for between 60 and 66 percent. Okyui informed me on November 26 that expenditures for 1943 would total 50,000,000,000 while revenues would be less than 20,000,000,000; preliminary estimates for 1944 are expenditures over 70,000,000,000 and revenues over 30,000,000,000.

Four. Mr. Kwok informs me that government is selling small amounts of gold through agents in Chengtu, Kunming, Chungking, Kweilin, Kweiyangshian and Hongyang. Sales heaviest in first 3 towns and least in last; gold being sold in 10 and 20 Chinese ounce bars to jewelers and hoarders. Net sales in last 2 months include among originally held in China before recent imports, i. e., under 50,000 ounce and small part of gold newly flown in. But government is chary of pushing down price and is both buying and selling to control market.

Five. Learn from reliable source that China and United Kingdom have agreed that part of sterling 50,000,000 coin be allocated to a hydro-electric project near Kunming.

GAUSS.

#### EXHIBIT No. 335

[Vol. 685, pp. 24-31]

DECEMBER 17, 1943, 4:30 p. m.

#### LOANS TO CHINA

Present: Mr. Glasser  
Mr. Bernstein  
Mr. Lipsman  
Mrs. Klotz

Mr. BERNSTEIN. Mr. Secretary, this is Mr. Lipsman.

H. M. JR. How do you do. This is Mrs. Klotz and Mrs. Dickinson.

Do you speak Chinese?

Mr. LIPSMAN. No, sir.

H. M. JR. Somebody around here has to speak Chinese.

Well, the President thought this was important enough to give me one of his few appointments today, and evidently the Generalissimo and Madame Chiang put up a great story to the President about inflation—how they wanted the balance of the money they had on hand. The President said around two hundred million. I said it was something like that.

Mr. BERNSTEIN. A little over two hundred million.

H. M. JR. And they would like to have another billion-dollar loan. I said I didn't know he could get that.

The President said, "Well, I had this idea. I think the trouble is that the Chinese have put out too much paper currency and there is too much of it. That is what caused this depression."

So I said, "No, that may have added to it, but," I said, "the trouble is, there isn't enough food to go around; therefore there is a lot of paper money and very little food, and the value of the paper money goes down as the price of food goes up."

"Well, anyway," he said, "let's say that the Chinese money is worth two cents"—I couldn't tell him what it was—

Mr. BERNSTEIN. Less than a cent. The official rate is five cents.

H. M. JR. What did it used to be worth?

Mr. BERNSTEIN. It used to be worth thirty cents.

H. M. JR. He said, "Supposing we could buy up in the black market, American money, or Chinese money"—he had some idea, say, of buying it at eighty—he used that figure—I think he used the figure eighty. But I think what he had in mind, buy it at the present black market rate, and then say to the Chinese, when the war is over, "We will let you redeem it at the price which we paid for it," even though the value of it goes up.

Do you see? Do you follow me? It is kind of sleight-of-hand.

Mr. BERNSTEIN. Yes, sir.

H. M. JR. I said I would have to think about this thing, but I am having lunch with him Sunday and I promised him a memorandum after lunch Sunday.

Now, the thing to do when you work with the President like this, is to take his plan and explore it and give the pros and cons. I don't know whether it is good or bad. I said, "Well, it is something like what we did in Teheran where we

bought, joint account with the British, local currency for our gold, and used it to pay the troops."

I said, "Do you want to go joint account with the British?"

He said, "Positively not. Whatever we do we want to do alone."

So I told him we had this letter very recently from Kung telling us the thing was better. That seemed to surprise him.

Now I said it was our fault or blame or responsibility that the gold left here so slowly. We thought that was the only way to make it last, and that we could let it go faster.

So what I would like you people to do—that is the story. Explore the President's proposal and give me the pros and cons on it. I don't know whether it is good or bad. It is something like buying the thing up and holding it, and then letting them redeem it. If you don't think we will have it, then give me a suggestion as to how the inflation in China can be combatted, see?

Now, you have got to do it within that framework—within the money and the credit they have left here. After all, when you say they have two hundred million—

Mr. BERNSTEIN. They have these bills, Mr. Secretary.

H. M., JR. Roughly five hundred million; they only used about twenty million of that.

Mr. BERNSTEIN. Some of that is pledged against the securities they have issued.

H. M., JR. How much?

Mr. BERNSTEIN. Two hundred is pledged, but it isn't all sold.

H. M., JR. But actually, out of the Chinese exchequer, I think there is only twenty million that is gone, roughly. Am I right?

Mr. BERNSTEIN. That is right, Mr. Secretary. You are right. They have only spent twenty million in the sense of buying gold.

H. M., JR. Four hundred and eighty million dollars that they can lay their hands on.

Mr. BERNSTEIN. In bills or in dollars; that is right.

H. M., JR. It doesn't make any difference. I am right, approximately, am I not?

Mr. BERNSTEIN. That is right.

H. M., JR. What can we do with four hundred and eighty million dollars—if that isn't enough, how much more do we need to do a job? There are three proposals—take the President's ideas, pros and cons. All right, let them use up that four hundred and eighty million dollars. Can you do anything by shipping gold? Do you remember my idea to use silver dollars?

Mr. BERNSTEIN. Yes.

H. M., JR. Or different things. Now, what you better do is you had better have something. I wasn't going to work tomorrow afternoon, but I will see you sometime late tomorrow afternoon—four or five at the house, see? Let me take a look at it and you can reboil it over again so I can have it by Sunday noon.

Well, somebody spark.

Mr. BERNSTEIN. Well, I think we can give you something on that, Mr. Secretary, especially since we have been exploring the possibility of selling gold there. We have gold quotations, we have some notion of the dollar quotation.

H. M., JR. I suggested to Harry—you know that we start selling gold—

Mr. BERNSTEIN. Out of that four hundred and eighty million, the only question in my mind, Mr. Secretary, is how much of that they have pledged, and I don't think they have pledged more than a hundred million, they would want to use. They may not want to use up everything.

H. M., JR. Just to take a minute—explain to me—what is this racket that our people do—there is a dollar bond out and you can buy it very low.

Mr. BERNSTEIN. That is the one.

H. M., JR. What is that? How does it work?

Mr. BERNSTEIN. American soldiers in China, or Chinese nationals, can pay the Chinese in Chinese yuan at the official rate, five cents; they can secure a U. S. dollar bond or certificate, which becomes payable in dollars after two years or five years. There are different ones. The funds are kept at the Federal Reserve Bank of New York to assure payment of those. Americans have been buying them and sending them back to their families to hold for them.

Now, that is what some of the money is pledged for, Mr. Secretary.

H. M., JR. Well, now, they have to buy yuan to do that; isn't that right?

Mr. BERNSTEIN. Right.

H. M., Jr. Really, what the President has in mind is our buying yuan, and issuing the bond against that, which would be good, at the present rate rather than at the old rate of par.

Mr. BERNSTEIN. Selling it at the black-market rate, which the Americans do, really. They sell the currency at the black-market rate getting yuan at less than a cent apiece.

H. M., Jr. It may be perfectly cockeyed.

Instead of buying a bond, let's say you buy a bond that will ultimately be worth a hundred U. S. dollars. You can buy that for what—two thousand?

Mr. BERNSTEIN. That is right, two thousand yuan.

H. M., Jr. I am good! I have to figure it—at two thousand, when you ultimately get it back, you get it back at a rate of two thousand yuan which are normally worth thirty cents. Is that right?

Mr. BERNSTEIN. What they will actually get back is dollars.

H. M., Jr. A hundred dollars—translating that thirty into that, would be how many?

Mr. BERNSTEIN. Thirty into that would be three, three, three.

H. M., Jr. But it is a hundred dollars.

Mr. BERNSTEIN. To get back to a hundred dollars is the significant thing to them.

H. M., Jr. Costs them how many dollars now?

Mr. BERNSTEIN. Actually it would only cost them twenty dollars, because they buy the yuan not at five, but less than a cent.

H. M., Jr. Well, supposing we buy two thousand yuan at twenty dollars. What the President suggested is that we give these people an option to buy back these at the present rate. Is that right?

Mr. BERNSTEIN. That is what I gather from what you say.

H. M., Jr. We won't lose anything, and we would clean up the market, wouldn't we?

Mr. BERNSTEIN. We could clean up some part of it. The Chinese will have to keep feeding the market with yuan because they can't balance their budget or borrow, and they can't tax.

H. M., Jr. How much help is it if we pay the U. S. troops in black market yuan if we went in and bought the way we did—

Mr. BERNSTEIN. It wouldn't help the Chinese.

H. M., Jr. What the President wants to do is help the Chinese.

Put the old bean on it sometime between four and five tomorrow. Come through with some kind of a plan.

Mr. BERNSTEIN. Yes, sir.

H. M., Jr. How to help the Chinese within what they have got now. I don't want to go up to the Congress and ask for any more.

Mr. BERNSTEIN. Yes, sir.

H. M., Jr. If you say four hundred and eighty million dollars—on the other hand, say how much; give me a price, how much it will do to fix them up. If, on the other hand, it is going to take food—goods is what I think it will take—put that in.

Mr. BERNSTEIN. Yes, sir.

H. M., Jr. I don't see how you will control inflation, if you don't have goods.

Mr. BERNSTEIN. I don't think you can stop inflation in China.

H. M., Jr. I think all he wants is a billion dollars for postwar. Right?

Mr. BERNSTEIN. I think that is what he wants.

H. M. Jr. But you give me the unvarnished truth, and let me have a look at it tomorrow. Will you go to work on it?

Mr. BERNSTEIN. Yes, sir.

H. M. Jr. You had better call up Harry on the phone.

Put everybody on there who has any time or brains, or vice versa.

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EXHIBIT No. 336

[Vol. 685, pp. 140-142]

DECEMBER 18, 1943.

Memorandum for the President.

You have spoken of the request of Generalissimo Chiang-Kai-Shek for an additional \$1 billion of financial aid to China to be used to help control inflation and for postwar reconstruction.

## I

The facts regarding inflation in China and the possibility of its control through the use of dollar resources are as follows:

Inflation in China, as you well know, arises from the grave inadequacy of production for war needs and essential civilian consumption. Supplies have been drastically reduced by enemy occupation and the cutting off of imports except the small amounts that come by air or are smuggled from occupied territory.

The Chinese Government cannot collect sufficient taxes or borrow from the people in adequate amounts. As a consequence, the Government has been issuing 3.5 billion yuan a month, twice the rate of a year ago.

The official exchange rate for yuan is now 5 cents; before China entered the war it was 30 cents. The open market rate for yuan in United States paper currency is one cent and in terms of gold one-third of a cent.

You have suggested the possibility of our selling dollar currency for yuan to be resold to China after the war at no profit to us. No doubt something could be done to alleviate inflation through the sale of gold or dollar currency in China. I have received the following message from Dr. Kung dated December 14:

"You will be pleased to hear that the recent gold shipment is one of the outstanding factors contributing to the strengthening of fapi, because people believe that the arrival of gold has increased the much needed reserve of our currency, thereby influencing the stability of prices. The action of the United States Government reaffirms to the Chinese people that, despite difficulties arising from the blockade and the cumulative effects of over six years of war against the invasion, China has a powerful friend desirous of strengthening China's economy as conditions permit."

However, while something could be done to retard the rise in prices, the only real hope of controlling inflation is by getting more goods into China. This, you know better than I, depends on future military operations.

## II

China has tried two similar monetary remedies for alleviating inflation without marked success.

1. The Chinese Government issued and sold dollar securities for yuan, setting aside \$200 million of the aid granted by this country for the redemption of the securities. (These securities were sold at exorbitant profit to the buyers. For instance, a person holding \$100 in United States currency could have quadrupled his money in less than two years by selling the currency for yuan on the open market and buying the dollar securities issued by the Chinese Government.) I believe that the program made no significant contribution to the control of inflation.

2. The Chinese Government has recently been selling gold at a price in yuan equivalent to \$550 an ounce, about fifteen times the official rate. We have shipped to China more than \$10 million of gold and they have sold about \$2 million of gold for yuan. This program has not been tried sufficiently to warrant any definite conclusion as to its possible effect.

China now has \$460 million of unpledged funds in the United States and is getting about \$20 million a month as a result of our expenditures. China could use these funds in selling gold or dollar assets for yuan, although in my opinion such schemes in the past have had little effect except to give additional profits to insiders, speculators and hoarders and dissipate foreign exchange resources that could be better used by China for reconstruction.

Under the circumstances, a loan to China for these purposes could not be justified by the results that have been obtained. It is my opinion that a loan is unnecessary at this time and would be undesirable from the point of view of China and the United States. Large expenditures on ineffective measures for controlling inflation in China would be an unwise use of her borrowing capacity which should be reserved for productive uses in other ways. On reconstruction, it is too soon for us to know the best use or the best form of the aid we might give to China.

### *Recommendations*

For the past five years I have had a deep admiration for the valiant fight that the Chinese people, under the leadership of Chiang Kai-shek, have waged against Japanese aggression. Therefore, I am in complete sympathy with your position that no stone be left unturned to retard the rises in prices. Using the tools we have at hand, I recommend the following:

1. All United States expenditures in China, currently \$400 million yuan a month and rising rapidly, be met through the purchase of yuan with gold or dollar currency at whatever price we can get them for in the open market. This is equal to more than 10 percent of the present rate of issue.

2. Accelerate the shipment of gold purchased by China to twice the amount we have previously planned to send. It should be possible to raise gold shipments from \$6 million a month to about \$12 million. At the present price for gold in the open market this would be equal to the present 3.5 billion of yuan currency that is being issued.

The impact of this twofold program should contribute to retarding inflation, always bearing in mind that the basic reason for inflation in China is the shortage of goods.

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EXHIBIT No. 337

(Vol. 802, Pages 1-3)

TREASURY DEPARTMENT,  
December 9, 1944.

INTEROFFICE COMMUNICATION

To: Secretary Morgenthau.

From: Mr. White.

Subject: Some Matters Requiring Your Attention.

1. There are a number of unfinished items of business remaining from the Lend-Lease discussions of the Joint Committee, some of which require decisions and some of which require action by you. The material is ready for your consideration.

2. A preliminary draft of a bill on Bretton Woods agreements to be introduced in Congress in January has been prepared in the Treasury and is now being discussed by the Technical Committee composed of various agencies. (Copy of this preliminary draft is appended.)

There are several decisions of some importance which you will have to make with respect to the provisions of this bill, and it would be helpful if you could set an hour aside to discuss those points with us before we get very far in our discussions with other agencies.

Congressman Spence telephoned and urged that you take prompt action to see that the legislation is assigned to his committee in the House and Senator Wagner's committee in the Senate. He said he was very much disturbed by the move on foot to assign these bills to the Foreign Affairs Committee.

3. Kung has said that he would like to settle payments due China for Army expenditures in yuan for October, November and December of this year. This is not an urgent matter and could easily be postponed if you wish. In view of the acutely unstable political situation in China, and in view of Kung's altered status, it might be better if discussions on those payments were not taken up at this time.

The Chinese are now pressing to ship gold via commercial vessel. Hitherto we have insisted on military transportation. They are pressing very hard to get as much gold exported to China as quickly as possible. We have stalled as much as we have dared and have succeeded in limiting gold shipments to \$26 million during the past year. We think it would be a serious mistake to permit further large shipments at this time. We would like to discuss the matter with you.

Mr. Friedman, who has just returned from China, has brought back a number of personal messages to you from various persons in China which you will want to read. Mrs. McHugh has them.

4. The Stabilization Fund expires in June of this year and an amendment to renew it would normally be introduced in April or so. In view, however, of the proposed legislation on Bretton Woods, it is necessary to make some decisions with respect to the form of the renewal in the next few weeks.

5. The German "book" is being revised and still awaits being turned over to some competent writer or publisher that you are to select. Incidentally, I have started a couple of men on a similar book on Japan. How far you will want us to go on it can be a matter for later decision. In the meantime, I thought we might get started in the event that you are called upon to submit a plan

for Japan or if the opportune moment for the submission of such a plan develops.

6. We had instructed Friedman to discuss with the Indian authorities in Delhi the question of obtaining all our rupee needs through the sale of gold. He did this and successfully made arrangements for us to obtain all rupee needs that way. We have finally cleared the matter with the British and are going ahead with arrangements for increased sales of gold in India. We estimate that we can thus save from \$20 million to \$30 million during the next six months. What we save will reduce U. K.'s dollar receipts by an approximately equivalent amount.

7. The discussions which the boys have been having with the Italian Mission are about over. You might want to set aside a half hour to go into the matter and decide where we go from here.

8. Mr. Olsen, our Treasury man, has just returned from Sweden. You may be interested in spending a few minutes hearing his report on the situation in Sweden.

9. Mr. Taylor and Mr. Patterson have gone to Greece from London. Taylor will stay only for a couple of weeks and then will go back to London via Washington to make his report. We are sending Mr. Tomlinson, of this Division, to London to take Mr. Patterson's place.

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EXHIBIT No. 338

[Vol. 807, pp. 257-259]

JANUARY 5, 1945.

Dr. H. H. KUNG,  
Room 706D, Shoreham Hotel,  
2500 Calvert Street NW., Washington, D. C.

MY DEAR DR. KUNG: I have received your letter of January 3, 1945, enclosing copy of cable from Mr. O. K. Yui, Minister of Finance, regarding shipments of gold to China.

I am giving this matter my close attention and hope to be able to give you my decision in the near future. You may be assured that in making my decision I will give fullest consideration to the best interests of China.

With kindest personal regards, I am,

Yours sincerely,

(Signed) H. MORGENTHAU, Jr.,  
Secretary of the Treasury.

[Handwritten note: White—Prepare an answer.]

EXECUTIVE YUAN,  
NATIONAL GOVERNMENT OF CHINA,  
January 3, 1945.

Honorable HENRY MORGENTHAU, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

MY DEAR MR. SECRETARY: On December 15, 1944 Mr. Hsi Te-mou wrote a letter to Mr. Friedman enclosing a copy of telegram from Mr. O. K. Yui, Minister of Finance, in which Mr. Yui requested your Department's assistance to hasten the shipments of gold to China to meet the Chinese Government's commitments.

As the situation in China requires the immediate arrival of more gold shipments, Mr. Yui has sent another urgent wire requesting me to approach you to facilitate such shipments. During the past decade I have enjoyed your valuable friendship and muting co-operation and assistance in matters which were of mutual interest to our two countries. Therefore, I am sending you a copy of Mr. Yui's latest telegram and hoping you will give this matter your prompt and favorable attention.

With kindest personal regards,

Yours sincerely,

H. H. KUNG.

[Incoming telegram]

From: O. K. Yul.  
 For: H. E. Dr. H. H. Kung.  
 Rec'd: January 2, 1945.  
 Sent: December 30, 1944.

[Translation of Chinese telegram—in substance]

With regard to our requests for drawing from United States credit for immediate shipments of gold and to the amount of gold sold and outstanding to be paid, I telegraphed on December 11th to Hsi Te-mou to report and refer to your excellency for instructions.

Outstanding amounts remaining to be paid after deducting about 80,000 ounces recently arrived is still over 200,000 tael weight. Also over 100,000 tael weight to be paid on three months' gold deposits maturing March. All these should be paid in order to maintain national confidence. Moreover on account of this year's (1945) deficit in our national budget the sale of gold to meet this deficit is keenly anticipated in all quarters concerned. Therefore may I respectfully request your excellency to take up with United States Treasury question of expediting shipments of US\$80,000,000 worth of gold and also completion of minting and shipments of US\$100,000,000 of gold tokens by United States mint at the earliest possible moment so as to stabilize our wartime economy and to further our war effort. Kindly instruct by cable.

## EXHIBIT No. 339

[Vol. 846, p. 32 et seq.]

May 10, 1945, 2:00 p. m.

## GOLD TO CHINA

Present: Mr. D. W. Bell, Mr. Coe, Mr. Friedman, Mr. Adler, Mr. White, Mrs. Klotz (and Secretary Morgenthau).

Mr. WHITE. Do you want to discuss this or not?

H. M., JR. Since you left we don't discuss things, we just work.

(Secretary reading letter to Dr. Soong, dated May 10, 1945:)

"I am replying to your letter of May 9, 1945, regarding our discussions on gold and the establishment of a \$500 million fund. I shall be glad to have your reply on the fund suggestion as soon as you have heard from the Generalissimo.

"As I informed you yesterday, the Treasury will consider steps to accelerate gold shipments to China.

"I am looking forward to seeing you again at which time we will be able to refer the gold question and the establishment of a \$500 million fund."

Now, the one seems to contradict the other. You say the Treasury will consider steps to accelerate the gold shipments—

Mr. COE. There's a question of money still left open there and we thought we would give it to them out of their money if we could. They have twenty million dollars of earmarked gold.

H. M., JR. Oh.

Mr. BELL. That's going to worry him.

H. M., JR. I don't like that "accelerate gold." I don't like that. Is that White? [Laughter.]

Mr. WHITE. No, that can be taken out because basically it—

H. M., JR. I'll tell you the question now of good faith here, Harry. I don't know if they have had a chance to explain this to you. I am in a kind of embarrassing position. I think—

Mr. BELL. The whole financial question is what you are discussing.

Mr. WHITE. You can leave that phrase out if it troubles you. It doesn't add much.

H. M., JR. I don't see why it can't be rewritten, leaving out the third paragraph. As I informed you yesterday, the Treasury will consider extensions to accelerate gold shipments to China. He doesn't say anything about hoping to see me.

Mr. WHITE. It doesn't matter because the position we are in is the same position we have been in for a long time.

H. M., JR. That still leaves it open to argument. Just take a look at that.

Mr. BELL. I think it's all right.

H. M., JR. Let it go.

Mr. COE. Harry cut out one paragraph. You cut out another—

Mr. WHITE. It's all right.

H. M., JR. I could send a letter, "Dear Mr. Soong, Yours truly."

Mr. COE. I'm glad it's not going up to the President.

(Mrs. Klotz leaves conference.)

H. M., JR. I'll sign it before I go.

Mr. BELL. He formerly thought he wanted fifteen minutes with you.

H. M., JR. The trouble was Senator George's meeting at one-thirty was called off but he told him he would be there at two-thirty.

Mr. WHITE. I understand you were troubled about the letter of the two hundred million. Mr. Secretary, we have always taken the position we had absolutely no legal grounds for withholding the gold; that what we were doing was skating on thin ice and offering excuses and we were getting away with it as long as we could, and remember because I said we are getting away with it that you better get the President's backing when they begin putting on the heat. It's because I said we have no basis for it. We have been successful over two years in keeping them down to twenty-seven million and we never understood why the Chinese didn't take it in there and do what they are now doing. The whole history is we had no basis for it.

H. M., JR. I can't remember things that happened, and when he flashed that letter on me it caught me sort of off guard and I didn't remember it.

Mr. WHITE. That letter grew out of what you thought the President promised Madame Chiang Kai-shek.

H. M., JR. They refreshed my memory, but the trouble is that, Harry, I think that the Army and State Department have advised me very badly on this thing last week and suddenly Will Clayton woke up to the fact himself, entirely on his own, and all the indications are that the Chinese are really going to fight. This man comes here now and he gets a cold shoulder, gets bounced around, he gets nothing. He may get four thousand trucks and this is the money which we have committed ourselves to, and I have sort of come to the decision that I don't know how far I'll go, but I certainly want to loosen up, and I think this is a psychological time for the Treasury to demonstrate we can be a friend to China, when they really need it, with their own money.

Mr. WHITE. That isn't the same way I'd do it. I'll drop that. I do think you need to have now for your own record—and this is wholly for your own record—you need now an exchange of letters from you to the President indicating that this money is being badly used. It will not help inflation and cannot be justified on economic grounds, and that the only basis, for it must be that they feel it is militarily necessary to satisfy his demands. Because, Mr. Secretary, this record—we have advised them against the use of this. It has been badly used and all the rest.

H. M., JR. I'd just do this, because I am pressed so, but over the week end prepare such a letter, and when I come back—there was a letter originally written on that to Mr. Roosevelt which I never took over.

Mr. WHITE. It was a memo, but the history of your negotiations with China are clear enough on that point.

H. M., JR. This will give you a chance to get back into working habits again, to do this over the weekend. It will be a nice way to break your way in, Harry. Glad to see you back.

Mr. WHITE. When are you coming back, because I want to tell you what was in the letters that apparently you didn't get. [Laughter.] They are not on your desk.

Mrs. KLOTZ. It could be I haven't cleared all my mail today.

H. M., JR. Well—

Mr. WHITE. What do you mean, today?

(The Secretary signs letter to T. V. Soong, dated May 10, 1945).

H. M., JR. I go up either Sunday night or Monday to Buffalo, and I'll be back Tuesday.

Mr. WHITE. Will you have ten or fifteen minutes between now and tonight?  
H. M., JR. I will try. It depends on how long I am on the Hill. We have quite a fight on our hands. I'll try to. I won't make any guarantee.

Mr. WHITE. I'll be here in case you have, or if you want, I'll ride down to the airport.

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EXHIBIT No. 340

[Vol. 827, pp. 53-55]

DEPARTMENT OF STATE

DIVISION OF CENTRAL SERVICES TELEGRAPH SECTION

[Incoming telegram]

CHUNGKING,  
Dated March 11, 1945.  
Rec'd 2:00 p. m., 12th.

CC-606: This telegram must be paraphrased before being communicated to anyone other than a Government Agency.

SECRETARY OF STATE,  
*Washington.*

401, March 11, 9 a. m.

To the Secretary of Treasury from Adler (for Treasury only).

Present gold situation.

One. Government is now relying on sales of gold and six month gold deposits as main source of revenue. Receipts from such sales in January and February were CN 14 billion (plus 20 percent of that sum from compulsory purchases of three year treasury certificates by gold purchasers), which is substantially in excess of receipts from taxation in same period. It will be noted that less than 25 percent of receipts from gold sales were from spot sales and that by far the larger part were from six month gold deposits. Central Bank's short position on gold is now approximately one million ounces.

Two. While Government is now selling gold it largely does not have on hand at rate of 350,000 ounces per month or United States \$105,000,000 per annum, receipts from gold sales, including compulsory purchases of treasury certificates, total barely 25 percent of current monthly deficit. And this deficit is not going to diminish during course of year. Therefore, if Government wishes to maintain in current ratio of receipts from gold sales to monthly deficit it will either have to increase price of gold or increase gold sales or both.

Three. The reckless Government conduct of its gold sales policy can only be described as "frenzied finance".

(A) It has been and is selling gold at an absurdly uneconomic price. The official pretext that price cannot be raised without an adequate supply on hand does not hold water. While official price of gold has been maintained, black-market price has risen to CN dollars 39,500 per ounce; also witness the heavy purchase of six month gold deposits at end of February due to rumor that official price was to be raised at beginning of March. Official claim that raising price of gold would push up general prices still further cannot be taken seriously at a time when prices are skyrocketing in any case.

(B) It is dissipating China's foreign exchange assets, which she will badly need at war's end, at current rate of United States \$150,000,000 per annum without significantly affecting economic situation. In fact, since inflation has now entered snowball phase, future sales of gold at current rate will have even smaller effects as brake on inflation.

(C) Part of the gold is finding its way into occupied China.

ATCHESON.

earmark in the Federal Reserve Bank of New York, one-half of which would be gold acquired in payment of tin exports from China to the United States. Foreign Economic Administration has informed us that the export of gold acquired as payment for tin exports is essential to maintain tin production in China.

4. The suggested reply to Dr. Kung does not make any definite commitments but, as soon as possible, we would inform his representatives orally that we have succeeded in making arrangements with the Army for the export of about \$7 million of gold during the next three months.

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EXECUTIVE YUAN,  
NATIONAL GOVERNMENT OF CHINA,  
New York, N. Y., February 26, 1945.

The Honorable HENRY MORGENTHAU, Jr.,  
*Secretary of the Treasury, Washington, D. C.*

DEAR MR. SECRETARY: You will recall that on several occasions we have discussed the provision of gold for China, and that you kindly undertook to expedite this matter. Since shipments to China have been considerably slower than we feel necessary, I wish now to present the situation for urgent attention.

The chief present financial problem of the Chinese Government, as you know, is to finance its large and growing deficit. The Government must handle this deficit in such a way that the inflation does not get out of hand—since if this took place, it would cause most serious consequences to the war effort of China and would be very hurtful to the conduct of American operations against Japan in and from China. Moreover, if inflation should seriously accelerate, this condition would undermine China's economic structure, impair internal stability, make it much harder for China to reoccupy and restore the areas now in enemy hands, gravely hamper China's reconstruction and progress in the next few years, and make it much harder for China to play the part in stabilization and peace maintenance in the Far East which its Government and people wish to play and which is desired by the American Government and people.

It is of vital importance, therefore, to reduce in every possible way the deficit financed through increase of note issue. For a little over a year, the Government has been selling gold to realize Chinese currency. In that way, we have sold from the latter part of 1943 to date over 900,000 ounces\* (something over US\$30 million)—which have realized around CH\$16 billion). While exact figures are not at hand, available data indicate that this sum is equivalent to something like a sixth of the deficit in the period. The sale of gold has been most helpful, and has definitely prevented the inflation from attaining a higher level which otherwise would have been reached. It helps to check increase of the general price level by diverting to purchase of gold certain funds which otherwise would be used to buy commodities to be held for higher prices.

The American Government, in order to help China, made available US\$200 million of gold out of the US\$500 million credit. Of this gold, the first installment was US\$20 million. Unfortunately, deliveries of gold to China out of this US\$20 million have totaled only US\$7,276,066.00, including 40,000 ounces (out-turn being US\$1,399,947.99) delivered in New York to the Bank of England against a similar amount in India. Actual shipments to China out of this US\$20 million were only US\$5,876,118.12. Thus, shipments have fallen far short of what is needed. As a result, the Central Bank was obliged to substitute forward sales for spot sales. A black market for spot gold developed, which the Government could not control owing to lack of ready supplies. The black market price for gold has risen to around CH\$35,000 per ounce, whereas the spot price—though no recent sales have been made—remains CH\$20,000 per ounce. Because of lack of gold, the Government has had to print and import more notes than otherwise would have been needed, which adds to the inflation.

Also the Central Bank will not be able to meet its commitments for forward sales unless shipments are materially expedited. In this connection, I quote the substance of a telegram from the Bank received February 5:

"Forward delivery sales of gold for January were 61,730 taels, total undelivered up to end of January 239,230. Six months deposits (that is due July) were 233,501 taels. Our experience shows that shipments by boat take two months to arrive at Chungking. Therefore, we hope that arrangements may be

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\*The Chinese ounce in common use, called the tael or size liang, is equal to 1.00471 Troy ounces.

made for at least four shipments right away. This will enable us to have the American bars minted into 5 and 10 tael small bars, in order to pay the deposits due in April, May, and June. Both forward delivery sales and deposits require supplies."

Under present conditions it is specially urgent to sell gold actively in China. In the past half-year the basic budgetary situation has become definitely more critical. Note issue has increased because of the program of reorganizing the Chinese Army, the operations of the American Army, and the outlay of the new War Production Board. At the same time, revenues have been cut by wide-spread military operations, and because the Government abolished certain taxes. My advices from China state that the Government expects to rely to a large extent upon sales of gold and of goods to hold the economic line. Since the first of this year prices have been rising more rapidly and the rising tendency is continuing. Our experience lately has been that prices rise more rapidly in the first half of the calendar year. It is particularly important, when prices are actively rising, to be in position to sell gold to withdraw money from the market, thereby lessening the need for increase of circulating notes. The American Government has been concerned about China's inflation and for the present gold sales are the most effective means to combat it.

Furthermore, there is now an active demand for gold in China. If sufficient gold is available in China, the Central Bank of China will be in position to raise its selling price for gold, thus getting back large amounts of Chinese currency. Otherwise, however, the Bank cannot control the price of gold. If the price were to be raised without an adequate supply on hand, the black market would only be driven to a higher level—with a bad effect on confidence and upon the general price level. As to price policy, we feel it is important to raise the price in the near future to substantially the present level of the black market (CH\$35,000 per ounce). Thereafter, our selling price will be governed by the demand for gold and the course of general prices.

In view of the urgent need for gold in China, we are most anxious to send forward at once by air the balance of US\$12,723,933.28 (say 364,000 ounces) of the US\$20 million, which is required at the earliest possible moment to meet near deliveries and to make spot sales. We would, therefore, appreciate your good offices in arranging with the American Army Air Transport Command for such shipment. Also we would like to have a further amount of say 500,000 ounces (US\$17,500,000) go forward as soon as practicable by air to enable the Central Bank of China to meet further near deliveries and to make spot sales. In addition, we would like to ship at once 500,000 ounces (US\$17,500,000) by sea to meet later deliveries. Thereafter, shipments should be adapted to needs in order to avoid again running short of gold in China.

I fully realize of course that this sale of gold is a financial expedient which should not ordinarily be used, and it is only the present emergency that justifies this policy. We wish to taper off and discontinue the sale of gold after consumers goods, especially cotton textiles, begin to reach China in good volume. It is the policy of the Chinese Government to obtain abroad and ship to China essential goods as rapidly as conditions of procurement and transport permit. In this way, the inflation will be checked most effectively—first, by adding to the supply of necessary goods, and second, by realizing from their sale on the basis of current market prices large amounts of Chinese currency which can be applied to meet the deficit and thus obviate the need for relying to that extent on increased note issue. The opening of the "Stilwell Road," together with the growing volume of air transport over the Hump and the progress of the oil pipeline, greatly adds to the available capacity for sending supplies to China. Further, it is our intention to obtain and transport larger quantities of necessary goods as soon as sea communication with China is reopened. Notwithstanding the urgency of military requirements, I feel that it is in the interest of the war effort of China and the United States to ship large quantities of such goods, because of the beneficial effect of this operation in retarding inflation and removing the threat of disorganized and extreme price rises which, if they occurred, would disrupt the Chinese war effort and also make it very difficult for the Chinese Government to afford to the American armed forces the cooperation which they require and which China is anxious to give.

At present, a request from the Chinese Government to procure and ship to China about 20,000 tons of cotton textiles is pending before the authorities concerned. I very much hope that you will give your valuable support to this and other proposals for shipment of goods, in order that we may obtain the goods and the transport required.

I wish finally to refer to the gold tokens of 1 ounce, ½ ounce, and ¼ ounce denominations to be made in the American mints, which you will recall we have discussed and issuance of which is in accordance with your ideas. The designs approved for these tokens were made with a view to commemorating cooperation between China and the United States. We are very anxious that these tokens be completed and shipped as soon as possible, in order to obtain the maximum benefit through broadening the market. Obviously, gold in the form of ordinary bars is not adaptable to ready distribution; whereas tokens such as these would be widely distributed among the public in China. It was stated last fall that it was expected that production of the tokens could be begun about the end of last December. I shall much appreciate early advice as to how the preparation of these tokens is progressing and how soon we may expect deliveries.

I shall much appreciate favorable action on these matters as soon as possible. I regret that I am temporarily unable to meet with you in person to discuss these matters, because of receiving medical treatment in hospital. I shall, however, delegate representatives to arrange details with the officers of the Treasury.

With personal regards and good wishes, I am  
Yours faithfully,

H. H. KUNG.

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EXHIBIT No. 343

[Vol. 825, p. 171]

MARCH 3, 1945.

Dr. H. H. KUNG,  
*Waldorf-Astoria Hotel,*  
*New York, N. Y.*

DEAR DR. KUNG: I am glad to receive your letter of February 26, 1945, regarding exports of gold to China. I am very sorry to learn that you are in the hospital receiving medical treatment and do hope that you will recover quickly.

I am sure that you appreciate the many difficulties involved in making arrangements for the export of gold to China. As in every other phase of our activities these days, military necessity takes precedence over everything else.

I have, however, instructed my men to raise again with the military authorities the possibilities of shipping gold to China during the next few months. They will inform your representatives of their findings on this matter.

With best wishes for your speedy recovery,  
Sincerely yours,

(Signed) H. MORGENTHAU, Jr.

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EXHIBIT No. 344

[Vol. 843, pp. 102-123]

May 1, 1945, 3:45 p. m.

GOLD TO CHINA

Present: Mr. D. W. Bell  
Mr. Coe  
Mr. Friedman  
Mr. Adler  
Gen. Somervell  
Gen. Carter  
Mr. Clayton  
Mr. Collado  
Mr. Stanton  
Mrs. Klotz

H. M., Jr. Has he seen this?

Mr. COE. I saw the earlier version. I talked it over with Mr. Bell. Did he get a copy of that memorandum?

Mr. ADLER. No.

Mr. FRIEDMAN. We took it right off the typewriter. He will be coming in, though.

H. M., Jr. Wait a minute. (Reading from memorandum to the Secretary from Mr. Coe dated May 1, 1945.) "China may offer to place dollar credits (at about

\$35 per oz.) from her existing assets to the accounts of purchasers of gold to whom she cannot make delivery for the time being."

How does one do that?

Mr. COE. Well, anyway, they are going to say if they can't pay this gold over, that wrecks confidence. The people who expect to get gold spread rumors and financial chaos follows. As an immediate palliative, they can pay these people money to their credit in New York and say they can get the gold later. It didn't come this month—military exigencies.

H. M., JR. I have carefully read the memorandum you sent me in interviewing Patterson. I've got most of this in my head so it isn't anything new so far.

Mr. COE. Are the figures there?

Mr. FRIEDMAN. There's a table on gold.

H. M., JR. Of course, we have no thought to exempt them from using part of that five million dollars.

Mr. COE. To exempt them from using part of the loan?

H. M., JR. Yes.

Mr. COE. You have this responsibility. We have a book prepared by Mr. Friedman on the history of the loan. We looked at it pretty carefully. You told Congress you and the President were going to watch everything they did with that loan. You used the expression which was that you were going to "hold out a carrot in front of the donkey." You said we are going to use it to fight.

H. M., JR. Sure. The two Friedmans. You're the economist and the other is the lawyer. You're the economist.

Mr. COE. That's right.

H. M., JR. You were in China, weren't you?

Mr. FRIEDMAN. That's right.

H. M., JR. This shows they sell the gold. The price is going up just the same, huh?

Mr. COE. Even faster.

H. M., JR. Did you have this ready or did you have to make this?

Mr. COE. They made that the other day, Mr. Secretary.

H. M., JR. This is inflation. That's a good memorandum, boys.

Mr. COE. Thank you for all of us.

(Secretary leaves conference temporarily.)

Mr. COE. Mr. Secretary, I don't know how you'd envisaged the meeting. We thought it might be good to tell these people it's exploratory pertaining to power of—

H. M., JR. I'm not going to make a decision, I'm going to tell them I just want to find out. It's a question—I read somewhere that Chiang Kai-Shek never raised the question of this gold. I read it somewhere in your memorandum. Did somebody say he has never raised this question?

Mr. COE. I don't recall that. One thing which we thought was that since Soong had skirted around it that if your position was going to be drastically negative you might want to give them a chance to get out from under.

H. M., JR. Who?

Mr. COE. Soong.

H. M., JR. Oh, no; what I've got to find out is whether Soong—

Mr. COE. His man Pei was in this morning. He said that Soong had planned to come back this week. He thought he was being a little delayed. I said if he got any news to give it to us.

H. M., JR. I think after this meeting we can say I want to talk to Soong but on account of Mrs. Morgenthau my plans are a little uncertain, and make a note I have given Plevin either Friday morning or Tuesday morning, depending on which he wants, and I haven't heard yet.

Mr. FRIEDMAN. I believe, Mr. Secretary, that your reference to the Generalissimo was at the time Ambassador Hurley was here, because he made the point that the Generalissimo had never said that the cooperation of the Chinese Army would depend upon the gold, and so forth.

H. M., JR. Maybe that's it. I read it somewhere.

(Discussion off the record.)

H. M., JR. Well I think the first thing to do is to ask the State Department first how they feel about this thing and then ask the War Department.

Mr. COE. Yes. By the way, for your information FEA has told us informally that they are being forced to turn down a greater part of the requests for textiles. They think that's the reason why we should be better on gold, but you know, T. V. Soong came over with a three-point program, trucks—

H. M., JR. Yes; but who in FEA said they wanted to crash this meeting?

Mr. COE. Jim Angell spoke to me and said Crowley had mentioned the subject to him that you were going to have a gold discussion.

H. M., JR. You can tell them I spoke to Crowley and I understood Crowley to say it was of no interest, that he wanted me to handle that gold, see? What? But if their position changes and they want to sit in, if Jim Angell wants to sit in, why, he's welcome. I don't want to just do it this afternoon, see? Tell them. That was an amazing statement Crowley made this morning.

Mr. ADLER. About reverse lend-lease?

H. M., JR. No; about slave labor.

Mr. COE. Frank Walker has the same attitude.

Mr. ADLER. He keeps making statements about reverse lend-lease. Crowley did it in the report for the last quarter of 1944, and they put it out in a summary for that quarter, too.

Mr. COE. For the inflation out there there is little doubt that these textiles are darn important. Varvaressos of Greece is coming in tomorrow about some troop pay arrangements. He told me a week or two ago when he was through that they had had in their effort to command inflation in Greece the existence of gold, and gold speculation is a habit among the population, and it was one of their most difficult problems.

H. M., JR. I hear they want five thousand horses.

Mr. COE. The Greeks?

H. M., JR. Yes. To plant this spring.

(Secretary leaves conference temporarily.)

(General Somervell and General Carter enter conference.)

H. M., JR. How do you feel about China?

General SOMERVELL. About the same.

H. M., JR. I guess there is a big drive on for more gold. We've been letting it go very slowly. I just don't know how much you want us to do.

(Mr. Clayton enters and Mr. Collado, Mr. Stanton, and Mr. D. W. Bell.)

H. M., JR. Well, General, as you know, the President gave me this task of dealing with T. V. Soong on his request for more gold shipments, and as you know, we have been in consultation with State and War as to how fast we should feed this thing out, and we've made it just as difficult for the Chinese to get it as possible, that being a sort of joint policy. Now, I'd like to have some advice from the State Department and War Department whether they want to change this policy or whether they want us to continue as we are on shipping three and one-half million a month.

Mr. FRIEDMAN. Two million.

H. M., JR. About two million dollars. Now, maybe the State Department would like to speak first.

Mr. CLAYTON. Well, Mr. Secretary, I presume in your discussions with Mr. Soong, the Minister, that you've been given perhaps information as to their short position on gold in their country. I understand there's enough gold on the way to take care of the nearby contracts which they have, May and perhaps June deliveries, and that there's no serious problem in respect to those short sales.

H. M., JR. That's correct; isn't it?

Mr. ADLER. That's correct; yes.

Mr. CLAYTON. That's one of the principal points he made in talking with me about it.

H. M., JR. When he came here it was just one of these so-called courtesy calls, but since then this man has been talking with our people, and I have had no direct conversations. I've just posted myself through our own people, but I don't know whether the State Department or War Department were responsible that the situation was such that we should change the policy.

Mr. CLAYTON. Well, from what I know of it it seems to me that you've been handling it very well, and I have no reason to believe that your idea that the sale of this gold and the way in which they've been handling it is really not a very effective anti-inflationary weapon. It seems to me your arguments on that are pretty good, and I would think that from what I know of the way in which you've been handling it, that it's very intelligent and all right. I'm not too well posted, but from what I know of it it seems all right to me.

H. M., JR. Well, thank you, sir, for the kind words. Now, as you know, we still haven't paid them anything after the first of October, and I have been told either correctly or incorrectly that the Army wasn't in any particular hurry to

have us clean up October, November, December, and then that's one thing I want to ask, and then the other thing is, is there anything in this situation that you are facing for the balance of this year as far as any of us can look, that you want us to change.

General SOMERVELL. Well, I don't think it's up to the War Department to say whether you should change or not. That's your responsibility. Now what we do want to say is this: The problem divides itself up into three parts, (1) the question of the debt which you have just raised; (2) the question of the effect of the shipments of increased amounts of gold on the inflationary tendency; and (3) whether we should consent to help inflation by selling scrap over there for Chinese money.

H. M., JR. Selling scrap?

General SOMERVELL. Yes; we have about two hundred and fifty million dollars on our books, haven't we?

General CARTER. Something like that.

General SOMERVELL. That we've got from the sale of tin cans and things of that kind which are very much in demand over there, and we've sold them at the highest price, and consequently all of those sales have had an inflationary tendency.

H. M., JR. Two hundred and fifty million dollars.

General CARTER. Converted at the regular rate.

General SOMERVELL. We sell this at the highest price we want and convert them in twenty to one and that makes two hundred and fifty million which is course very artificial.

H. M., JR. What is it in our money?

General SOMERVELL. It is two hundred and fifty million your money.

Mr. COE. Just, Mr. Secretary, if I may interpose there, we have also regarded that, General, as a good anti-inflationary program because (a), you are releasing some goods into the Chinese economy and (b), you are helping to sop up some of this scrap.

General CARTER. The trouble is—

General SOMERVELL. We're selling at the highest price we can get and hence we are raising the prices of tin cans, aren't we?

Mr. ADLER. They haven't any tin cans in China. If you sold them lower some speculator would get the profit.

General SOMERVELL. I'm not sure of that. If we turn this over to the Chinese Government instead of selling them in the open market, and let them dispose of it, and then credit what the sales were on our books, I think it would have more of an antinflationary tendency than the present method.

Mr. BELL. What you'd like to do is sell them to the Chinese Government for dollars.

General SOMERVELL. Or any old thing—fifty cents.

Mr. BELL. For dollars, and they can sell them for Chinese yuan in the market.

General SOMERVELL. In other words, let them handle the thing.

H. M., JR., I don't know, was something withheld from me? Where do these tin cans originate?

General SOMERVELL. All over the United States, as corned beef, or whatever happens to go out in them.

General CARTER. They scrap tires—use tires to make shoes.

Mr. ADLER. They are things flown over the hump from the Army.

General SOMERVELL. They're in China and they become scrap to us.

H. M. JR. Do we ship them from here to China?

Mr. COE. We ship goods in them.

Mr. FRIEDMAN. They first have pineapple in them, but in China the cans themselves become valuable.

H. M., JR. We're not picking up old tin cans here. It's something that has goods in them when they go over.

General SOMERVELL. That's one problem. Now, we agree that whatever gold has been sent over there has not checked—we'll say it hasn't prevented inflation. I think right now the black market is around seven hundred against two hundred when we made the agreement with them last September, so the inflation has continued. To what extent that has retarded inflation I'm not in a position to say.

H. M., JR. This shows the amount of gold, and the more gold we ship it so happens that the more the price goes up. In other words, I don't know whether it's just an accident, but as increased shipments go up, the price index has gone up.

General SOMERVELL. That certainly is no proof that the shipments of gold have checked inflation, certainly, whatever else it may prove.

Mr. BELL. It's a question as to whether that line might have been up further.

Mr. CLAYTON. That's the question and nobody can say definitely whether it would or wouldn't.

General SOMERVELL. It is no proof of anything.

H. M., JR. That's what you've got charts for, to interpret them.

Mr. COE. To the extent they have financed gold purchased by the creation of credit there, their banking system hasn't had any effect at all and so there's at least some evidence there's been some type of that gold purchasing on.

General SOMERVELL. It's up to you to decide whether this thing is a help or hindrance, that is, the shipment of the gold. As far as we're concerned we regard anything which would have a substantial effect on the stability of the present government, as a matter of first importance. In other words, we have to conduct a campaign over there, and we have to use Chinese troops to conduct the campaign, and unless that government is in a position to command the obedience of those troops and to supply them and carry on the battle, we are not going to get the benefits from the coming campaign we expect to get. In that sense the department is very much interested in whatever happens. Now, the third point about paying our bills, as I remember our agreement last September, was that within 3 to 6 months you were going to have another set-to with these people and come to an agreement for 3 months or 6 months. I think contrary to what you said that we believe you should make a settlement with them now. In other words, whether it be for the 6 months that have passed or for 9 months up to and including the fiscal year, I wouldn't know, but with the Chinese dollar skyrocketing the way it is now I think you'd probably want to make some kind of a settlement now for the past 6 months and then take up the next quarter or whatever it is at a later date. We don't care about that, so we think perhaps you better make a settlement pretty soon.

H. M., JR. Well, I don't know whether we've got the figures yet. Mr. Bell, have we?

Mr. BELL. I haven't seen them.

General CARTER. We have figures for the quarter ended December 31.

H. M., JR. Have you given us those? How long have we had them?

Mr. FRIEDMAN. We've had them for a few weeks, Mr. Secretary, at the present time. What we're doing is discussing with the Chinese the difference in the Chinese figures and our Army figures so that before you considered making the decision we'd have agreement on figures.

H. M., JR. It hasn't been waiting on me.

Mr. FRIEDMAN. I don't believe so.

Mr. COE. No, after the last experience we thought we better get all figure questions out of the way first before trying to negotiate.

H. M., JR. I usually get a couple pounds of tea out of this. I don't know. I haven't had any tea in a long time.

General SOMERVELL. It's about time you did get some.

General CARTER. Of course we're anxious to get this in our appropriations.

General SOMERVELL. We want to get the settlement on any basis and then we'd like to get the thing cleaned up as of the end of the fiscal year.

H. M., JR. I question whether you'd give us any figures except for the last quarter of 1944.

General CARTER. That's correct, sir. We've given you the figures for the quarter ended December. We'll have the figures for March pretty soon and we'll pass those on. If this thing moves like it did, it won't be settled overnight.

H. M., JR. The price in yuan doesn't bother me much because I have always insisted in dealing in United States dollars. The fact that the figures we have been talking about have been slow in getting to us—we haven't had them 2 weeks—won't cost the Army anything more.

General SOMERVELL. We rely entirely on you to protect the interests of the Army.

H. M., JR. I've done pretty well, haven't I?

General SOMERVELL. You have done very well. That last deal was a pretty good deal.

H. M., JR. If I tried to do it in Chinese dollars, it would have cost you 50 percent more at least. I think I got a little white hair over it. Any time anybody wants to deal with the Chinese on those payments—now that I got rid of Surplus property! I haven't seen you (to Mr. Clayton). I thought you'd write me a little letter about that. (Laughter.)

Mr. CLAYTON. I congratulate you right now.

H. M., Jr. You didn't think I could do it?

Mr. CLAYTON. I didn't think you could do it.

H. M. Jr. That was the fastest sale I ever made.

General SOMERVELL. Was Wallace asleep? He must have been.

H. M. Jr. No. I told Henry—

General SOMERVELL. I said Wallace must have been asleep.

H. M. Jr. He's hungry. He wasn't asleep. He was just hungry. I explained to him this was a dirty piece of business, and he thought it over and turned the town upside down to get it.

General SOMERVELL. I'm glad to know that. I thought maybe I better go around there.

H. M. Jr. There's nothing—what I'd do is this: We'll tell T. V. Soong we are ready to begin to talk, and then we'll keep you people advised. I'd like somebody from State to be present when I see him. If the Army would care to send somebody here, we'd be delighted to have somebody present so they wouldn't play us one against the other. If General Carter is not too busy, maybe he could attend.

General SOMERVELL. Fine.

H. M. Jr. One of the things we are talking about doing is trying to get them to use their own money from now instead of part of the United States loan for these gold shipments, and we've been trying to get them to rebuild that back to the five hundred million dollars if we can, of the original loan made by the United States Government, and possibly, if they do that, we might be willing to accelerate the gold a little bit.

General SOMERVELL. As I understand it, the gold to cover these gold notes that the banks have out is on the way over there.

Mr. CLAYTON. The gold sales at the bank as I understand it—there's enough on the way to take care of the prompt deliveries that have to be made, that is May and June, and there are no more deliveries that are made for September after that?

Mr. ADLER. They fall due every month I'm afraid.

Mr. CLAYTON. Oh.

Mr. COLLADO. There is a heavy one in September.

Mr. ADLER. May is O. K.

General SOMERVELL. I'd like to bring up two other points, Mr. Secretary.

H. M., Jr. Please.

General SOMERVELL. There are other methods of combatting inflation. It has been suggested that we send over certain textiles, and certain trucks, wrist watches, and what have you. Now, the other points I want to make on those are as follows: The difficult one is the textiles. At the present time the textile production in this country is very tight. Take cottons first. We are taking, that is the Army, Navy, Maritime Commission, about a third of the total output on it. Now, we are not having our requirements satisfied. This quarter we asked for one hundred and thirty million yards and we are only going to get ninety-nine and one-half million yards if we get all that's promised us, and we doubt very much that we will. That's on combed goods alone. That's the kind of stuff that is going into shirts and trousers and some of the better grade of cotton goods. The other cotton that we're interested in is duck. Duck is needed for tents, and so-called numbered ducks, that is heavy ducks are needed for automobile tops and cartridge belts and things of that kind. That is also in tight supply. We are particularly short on these numbered ducks. With regard to sheetings, we use sheetings to make raincoats and things of that kind. It's basic material for that. We're in short supply. The civilians tell me they're in short supply. There's something like two hundred million yards got up for export to one place or another. Now what the Chinese would like, as I understand it, is a thousand tons which translated is ten million yards per month. It can't come out of military supply. It will have to come out of civilian, which is short supply, or this export which Mr. Clayton has all earmarked somewhere else. Now, that is going to have to receive consideration. We'd like very much for the Chinese to get the cloth. It will serve the purpose that they think it will, namely of bringing down the prices. We don't want it for general distribution, but we do want it for distribution along our line of communications and where our people have to be. There's no reason why the trucks that they want and the gadgets that they want shouldn't be supplied. There's no reason why we can't supply them with the trucks, not army trucks but FEA trucks, and there's a shortage of watches, but there again it seems to me that can be arranged, so

the Army position on those things is we like very much to have them all supplied. We doubt very much that the textiles can be supplied without an impact on either our domestic economy or export program which would be felt. We have no means of supplying it from Army stocks or from allocations to them. And that's our position on it.

H. M. JR. Well, now, as we go along, General Carter could keep us posted as to what you do or don't do, so we can kind of play this together. I think we should. Don't you think so?

Mr. CLAYTON. Yes I do.

H. M. JR. I mean so that we can keep the piano in tune.

Mr. CLAYTON. Yes. I'd just like to say on General Somervell's statement, Mr. Secretary, that I agree with everything he said a little earlier about the importance of arresting this inflationary trend if it can be done, because if it gets completely out of hand, it might just bring the whole thing down, which I take it would be a very serious matter from your point of view.

General SOMERVELL. That's right.

Mr. CLAYTON. I don't know enough about the subject to express any opinion on whether the sale of gold and the quantities that they have in mind is very much of an effective weapon to arrest that inflationary trend or not. You're much better able to speak with authority on that subject than we are, and I'd be inclined to take your judgment on it entirely.

H. R. JR. We don't think it would really have any effect at all. It's in their mind.

Mr. CLAYTON. Yes.

H. M. JR. But actually as to keeping prices down, I don't think that the way they handle it—if it could be handled differently, it might have some effect, but not the way they handle it, where it goes into the hands of a very few people.

Mr. CLAYTON. It would take an awful lot of gold even if handled very intelligently. What they need there more than anything else is goods.

H. M. JR. That's right.

Mr. CLAYTON. And that's the most difficult thing to get there on account of transportation problems. If we can take some Chinese port and get goods in there we could make very definite headway against this inflation trend on what the General had to say about the textiles. I went over that matter in detail with Mr. Soong and some of his associates and we would like very much to see those textiles shipped in there. They are only asking us for the rest of the year for nine thousand tons of textiles. Well, that's—when you compare that with the total production in the United States—when you look at all kinds of textiles, it's bagatelle. It's less than one-half of one per cent of our year's production of all kinds of textiles.

General SOMERVELL. One-tenth of one per cent of cotton textiles on your production is about at the rate of nine billion, two hundred million yards and that's about ninety—

Mr. CLAYTON. I figured it in terms of bales of cotton. We are consuming about ten billion tons a year in the United States, and this is about forty thousand bales which would be a little less than one-half of one per cent in terms of total production. [Laughter.] It is very small and they desperately need it. The thing they need worst perhaps than anything else in China is some clothes, because practically all the mills are in the Jap's hands and they've only got a few little mills scattered around in the interior that are operating, and some that are desperate for some cotton textiles, and we'd like very much to see some additional supplies going in there. They can let the Air Transport Command handle it all right, over the hump as they tell us—and indirect. Now, I was not aware you'd completed your investigation on that and had come to the conclusion that the Army couldn't give us any of this small amount that they require. Now I don't know, gentlemen; I haven't looked into it. I don't know what the chances are of getting it out of the civilian supply. I haven't looked into that at all. I'd hoped you would be able to spare it out of the Army requirements.

General SOMERVELL. I'd like to say our requirements are only twenty per cent of the total.

Mr. CLAYTON. Yes, I know. Well, if that's the case, then we may have to go pretty high up. We may have to go to the President to help us on this thing, but the State Department can do it very well and argue the case from the point of view of the importance of the matter to the War Department or to the Army, and that's where its primary importance lies in our opinion if it lies anywhere, so we would like to ask you if you can't give it out of the Army supply to help us, or to join us in a memorandum to the President asking him to lend his in-

fluence so that it's given out of some of their supply. Of course, the State Department hasn't got this export stuff at all. It's been claimed by the FEA. They are claimants for foreign countries, as you know, before the War Production Board for supplies of that kind, so that it's been in their Department, and they have control of that.

General SOMERVELL. Why wouldn't this be the proper thing to put in Crowley's books?

Mr. CLAYTON. Oh, I think it would. I don't see why it shouldn't be taken right there.

General SOMERVELL. We'll be glad to join in this memorandum to the President, but before it goes to him I should think under the—what do you call it?—terms of reference of the committee it might be proper to go before the Crowley committee first.

Mr. CLAYTON. I think that's a very happy suggestion; and if you'd join me, why, I'd take it up with him at once.

General SOMERVELL. I'd be glad to.

Mr. CLAYTON. On the trucks, if I understand you correctly—

H. M., JR. Excuse me—for whatever it's worth, we'd like to join you in pleading for some stocks.

Mr. CLAYTON. Fine. Thank you very much.

Mr. BELL. Are there still restrictions on commodity-credit cotton? There are still a couple million bales.

Mr. CLAYTON. It's not a question of the cotton. We've got cotton. It's a question of processing, facilities, manpower, and that sort of thing.

General SOMERVELL. Excuse the interruption. It's not even that; but, as has been explained to me, they're getting cotton and own cotton in India now, and they're about to commence to get ready to buy cotton here to supplement what they have over in India. The spindles are idle and the looms are idle, and they want this textile cloth. They want the cloth in addition to the cotton which they intend to put into the looms they already have.

Mr. CLAYTON. General, what they have in India is cotton cloth, not raw cotton.

Mr. ADLER. They're trying to buy raw cotton from the Indian Government.

Mr. CLAYTON. But they have a supply of cotton textiles there already, which they are gradually moving into China.

General SOMERVELL. I was told they had bought the cotton. Now they are apparently merely negotiating for the cotton.

Mr. CLAYTON. I don't know about their trying to buy the raw cotton, but they do have, they told me, four thousand tons of cotton textiles lying in India which they are gradually moving over to China, and they bought cotton textiles from Mexico and Brazil, and then they have priority now on four thousand tons from the United States, but it's such a low priority they don't expect to get it anyway until too late in the year. Put that all together, and that leaves about five thousand tons they expect to get from us additionally, making a total of nine thousand tons from the United States for the remainder of the year, and it's that five thousand tons—and they need to raise the priority on four thousand tons—that we have to deal with.

General SOMERVELL. On the assumption that they're not going to buy any raw cotton?

Mr. CLAYTON. They didn't talk to me at all about buying any raw cotton.

General SOMERVELL. I think you should get into that, because the way the thing is explained to me they do intend to get five thousand tons of it.

Mr. CLAYTON. I thought they had more cotton in China than they had mills to process it.

General CARTER. The Japs got it last year.

Mr. ADLER. They got fifteen thousand tons in the last six months of 1944.

Mr. CLAYTON. Yes.

Mr. STANTON. They have more spindles than they have cotton.

Mr. CLAYTON. I didn't know that. I thought they had more cotton than spindles.

General SOMERVELL. There are two things—one is the raw cotton program to get the spindles busy, and the other is the cloth end of it which is to supplement what they can get out of their own facilities.

Mr. CLAYTON. There is no direct way, and they're getting raw cotton. If they can't get it in India—and there is plenty of raw cotton in India—they can get it in Brazil. There's plenty of raw cotton all over the world. The shortage is in the textiles, finished goods.

Mr. ADLER. I understood there were two advantages in buying raw cotton here from their point of view. One is transportation, transporting raw cotton rather than finished goods. Second, as our cotton is too high grade for their purposes, they would prefer India's.

Mr. CLAYTON. That's closer at hand of course, and they won't have any trouble buying Indian cotton.

General SOMERVELL. What I heard was they wanted to mix our cotton and Indian cotton.

Mr. CLAYTON. General, on the trucks do I understand you correctly to say the War Department will see that they get trucks?

General SOMERVELL. We will not see that they get the trucks, but we will help FEA on their priority so they can get them.

Mr. CLAYTON. Good.

General SOMERVELL. There are fourteen thousand in the present program.

Mr. CLAYTON. Still to go.

General SOMERVELL. No. I think we have sent about four thousand of those over already.

Mr. CLAYTON. And that's about one thousand a month for the rest of the year and they want—

General SOMERVELL. Five thousand more, or maybe it was fifteen thousand and four thousand. It totals nineteen thousand.

Mr. CLAYTON. Fifteen and four I thought.

General SOMERVELL. And we're for that with FEA, and with the reductions in our program it seems it's purely within their realms of possibility.

Mr. CLAYTON. Will you and FEA handle it? Is there anything we can do?

General SOMERVELL. Support it with FEA.

H. M., JR. The point is what we should do in view of this. I think we could sort of get down on a piece of paper a complete program what we could do and present it in that way as a complete program.

General SOMERVELL. I quite agree. I found out by accident about wrist watches and what have you.

Mr. CLAYTON. They can't tell us a thing about that.

H. M. JR. I think what the President had in view with T. V. Soong, was that we prepare a sort of complete program, what we can do and what we cannot do, and sort of have a united front and give it to them, say, as a complete program.

Mr. CLAYTON. Yes.

H. M., JR. And I think before I see him we'd like to have that.

Mr. CLAYTON. We have a memorandum from Mr. Soong on all these points that he sent to the Secretary of State.

Mr. COLLADO. Do you have that?

Mr. COE. Yes. We have that.

H. M., JR. We have a sort of informal working committee.

Mr. CLAYTON. Suppose we have a working committee work on a reply to that memorandum that would take up each one of these items, gold, textiles, and trucks, and say what we propose to do.

General SOMERVELL. And gadgets.

Mr. CLAYTON. Gadgets.

General SOMERVELL. The only place I know where you can buy Parker Pens is in Kweilin.

H. M., JR. They cost you one hundred dollars.

General SOMERVELL. They don't cost too much.

H. M., JR. I understand there will be a program committee to prepare a program to be presented to T. V. Soong as a complete program so he won't be trading one of us off against the other.

Mr. CLAYTON. All right. If you don't mind, we'll get Mr. Willauer who has been handling it with FEA to work with other members of the working committee.

H. M., JR. And you people—somebody call a meeting.

Mr. CLAYTON. Mr. Collado will handle it for us.

H. M., JR. Mr. Coe will handle it for us.

General SOMERVELL. General Carter will handle it for us.

Mr. CLAYTON. Fine.

H. M., JR. I could send word to T. V. Soong. We'd be ready sometime next week?

Mr. COE. I think so; yes.

Mr. CLAYTON. Early next week. And, General, I'll take up this textile matter Mr. Crowley wants and tell him you joined me in it, and we'd like to get it put before that committee just as soon as possible.

General SOMERVELL. All right, sir.

H. M., JR. I just want to tell you I talked with the President about this and he talked at Cabinet. I think he had in view that we would have it rounded out. I would sort of be the responsible man for the administration on this thing, and that would be a complete program if that's all right.

Mr. CLAYTON. What?

H. M., JR. I said I talked to President Truman about it, and he brought it up at Cabinet, and I'm sort of being the responsible man for a complete program on this—if that's all right.

Mr. CLAYTON. Yes, certainly.

H. M., JR. I'm a sort of glutton for punishment. All right?

General SOMERVELL. Yes.

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#### EXHIBIT No. 345

[Vol. 841, pp. 263-264]

DWH V WTD 27 April, 5:40 PM GR 516.

Serial Nbr. E/27th.

To: Secretary Morgenthau.

From: Mr. Coe.

For information.

Subject: Chinese Gold.

For your information these are our tentative views on the subject of gold for China. In addition to the discussion with Patterson, we have met with Mr. Collado of State and the acting head of the China Division there. I think we can get their agreement on all the points below, except the one indicated.

1. The Treasury should continue to oppose all except minimum shipments of gold, where these endanger American lives or use scarce transport. This policy should continue to apply to China.

2. We cannot now agree to promise the \$50 million of gold shipments which the Chinese want in the next few months in order to meet the gold certificates which fall due, the Chinese did not consult us about these forward sales of gold, which are obviously imprudent in the circumstances and were designed to act as a pistol at our heads.

State has not indicated that they are afraid of the political consequences of this refusal. I suppose, however, that if in later months a great fuss is made and if State tells us that they are afraid of grave political consequences, we would agree to step up gold shipments in order to clear up these arrears.

3. Without condoning the past program, we should tell the Chinese that we expect them to stop all forms of forward sales of gold immediately.

4. In any case, all further gold sent to China should be out of their own funds, and not out of the \$500 million loan. Your own responsibility for the uses to which this loan is put is the basis for this recommendation. The program of forward sales of gold, like the predecessor programs of \$200 million United States savings certificates and bonds, has been used as a device for enriching a few insiders and has had negligible effects upon the Chinese inflation.

5. After consideration of the whole history of the \$500 million loan, and the uses to which it has been put, we think that you should tell the Chinese that you wish them to put aside the remaining \$240 million of the loan, and an additional sum of their own United States dollar exchange, of perhaps \$260 million, as a fund to be used for stabilization and reconstruction purposes, in accordance with an agreed program, to go into effect at an agreed date, the program should include the fiscal, economic, and administrative measures necessary to stabilize the currency, and the date should be the earliest time when we and the Chinese agree that they can go forward on such a program.

If the Chinese are not willing to accept this proposal, we think it wise policy to allow no further depletion of the loan. (In addition to this \$240 million the Chinese now have some \$700 million of United States dollar exchange.)

We have prepared charts and analyses to show that the acquisition by China of additional foreign exchange and the sale of gold or any other form of foreign exchange by China have had no discernible effect in halting the inflation.

TOD: WU April 8:05 PM WTD (RAJ).

TOR: 27 April 8:05 PM DWH (WAG).

MAY 8, 1945, 10:15 a. m.

Gold to China.

Meeting with Gutt.

Meeting with Pleven.

German gold.

Finances.

Present: Mr. D. W. Bell

Mr. Coe

Mr. Adler

Mr. Friedman

Mrs. Klotz

H. M., Jr. What comes first?

Mr. COE. China, sir.

H. M., Jr. All right.

Mr. COE. There are first a couple of procedural questions. I think if Will Clayton doesn't want to, at least his people will urge him to, and he will expect to sit in beyond the two-fifteen and three o'clock meeting. Do you want that?

H. M., Jr. Pardon?

Mr. COE. Do you want that?

H. M., Jr. I think it would be nice. I haven't got much time. The quicker we move on these things the better.

Mr. COE. All right, then, the second point, is the matter to be handled orally or should he be handed something? If he is handed something, we thought that this was—

H. M., Jr. Read it out loud, will you please?

Mr. COE. Yes. I think that State feels since he handed them a memorandum, he ought to get something in writing. On the other hand, these things often come back to plague you. I think you can settle that at your two-fifteen meeting. This one—and by the way, I think we are in agreement with State on everything here.

Mr. BELL. That's good.

Mr. COE. This one is drafted as a memorandum for Dr. T. V. Soong from you.

"1. This memorandum does not deal with the questions of textiles and trucks which were included in the program which was presented to this Government. The urgency of China's need for these items and their bearing upon inflation are recognized. They are omitted because our supply authorities are in the process of making an overall determination of requirements and supplies and are not yet in a position to make a decision respecting China's requests.

"2. We—" the United States Treasury and the other agencies which are concerned with inflationary conditions in China—"are agreed that any program to stabilize the currency and to check inflation should comprise a broad series of measures in the following categories:

"(a) Monetary and banking rehabilitation.

"(b) Foreign exchange stabilization.

"(c) Fiscal and administrative reforms.

"(d) Increase of supplies and improvement in their distribution.

"3. We—" the United States Treasury and the other government agencies concerned—"are anxious to give full support to an effective anti-inflationary program for China. It is therefore recommended that a Currency Stabilization Fund of \$500 million be constituted for this purpose from the remaining \$240 million of the United States loan to China and from China's existing dollar balances. Such an allocation of this remainder of the United States loan would be in strict accordance with the spirit and the letter of the 1942 financial agreement. The Fund would be set aside with firm mutual commitment on the part of China and the United States as to its purposes and availability.

"It is envisaged that the uses to which this Currency Stabilization Fund would be put would be part of a broad concerted program for combatting inflation and for currency stabilization and these uses would be subject to joint agreement. The time at which the Fund's operations would start would be discussed at a later date.

"The Treasury stands ready to advise and consult with the Chinese Government on the content and timing of such anti-inflationary and stabilization program."

H. M., JR. Let's just talk. I think that's good, and I don't. I think we should give them something in writing because he'll tell me six months from now he didn't understand what I said and I think the only way you can deal with the Chinese is to give them something in writing and then there's no argument about it.

Mr. COE. We drafted this with the thought, too, that if it was put in writing and later shown at the White House or anywhere there couldn't be any question in turning them down on gold we were being indifferent to the inflationary thing, and Collado and the State Department people have grown quite excited about this proposal.

H. M., JR. The final proposal?

Mr. COE. Yes. They think if Dr. Soong was to think he was getting disappointed on such a mission when such a nice proposal was made to him it would be a mistake on our part.

H. M., JR. It's his own money.

Mr. COE. It's his own money but I think they have also had uncertainty as to whether they'd have a decent series of anti-inflationary measures to use it.

H. M., JR. Why should he get excited?

Mr. ADLER. Chinese have more confidence in the United States Treasury than in the Chinese Ministry of Finance.

H. M., JR. That doesn't surprise me. You're telling a fellow to take a little bit from this pocket and a little from that pocket and put it in here.

Mr. BELL. And reserve it for a special purpose. It has a little of the preaching tone.

Mr. COE. That's true.

Mr. BELL. It seems to me—

Mr. COE. We wanted to build this thing up. That's why. Well, shall I go on?

H. M., JR. I wouldn't use a preaching tone with him. America's whole interest is through the missionaries.

Mr. COE. I think that they expect it, Mr. Secretary. For instance, the new head of the—

H. M., JR. The missionaries we send them go out and buy—

Mr. ADLER. Alsop says I'm the only pure-minded guy in China, because I didn't buy any of their savings—that's the reason he said that.

H. M., JR. Does that mean that Joe did?

Mr. FRIEDMAN. Just a few.

Mr. COE. Well, I don't think just on this preaching level they'd appoint a Central Bank manager who wouldn't start worrying almost immediately as to whether he had United States Treasury support. That doesn't bother me.

Mr. BELL. I just made a remark in passing.

H. M., JR. I think you're right, but it won't bother me.

Mr. BELL. It doesn't bother me.

Mr. COE. "We are strongly of the opinion that the initiation of a Currency Stabilization Fund would strengthen the financial position of the Chinese Government and would inspire confidence both at home and abroad in its future economic and financial stability. The existence of such a Fund would give the Chinese people a real sense of security with respect to their ability to cope with their grave problems of reconstruction."

"It should be noted that this proposal relates to only one portion of the foreign exchange assets presently available to China and that it would leave a relatively large amount of dollar exchange for helpful intermediate measures and for meeting China's current foreign exchange requirements."

The Treasury believes that at least a portion of China's existing assets should be used for these purposes and that the remainder of the Chinese-United States loan can best be utilized in this manner.

H. M., JR. In what manner?

Mr. COE. I think that sentence goes out. It's not clear to me they mean for the—

Mr. BELL. For the fund.

Mr. COE. For the fund, but we've already said that. Let's cut out that sentence.

"4. We suggest that the Chinese Government consider the desirability of terminating the program of forward sales of gold. As you know, the United States Treasury was not consulted—"

H. M., JR. That isn't strong enough.

Mr. COE. We believe that should be—"As you know, the United States Treasury was not consulted when this program was initiated. In view of the difficulties of shipping gold, the limited effects of sales upon price rises in China, the public

criticism of such sales and the desirability of using foreign exchange resources to achieve maximum effects, this program is ill-advised.

"5. The Treasury will endeavor, as in the past, to make available limited quantities of gold for shipment to China during the next few months, having due regard to the need for restricting gold shipments where these endanger lives or use scarce transport facilities. However, in consideration of points 2 and 3 above, it is believed that further shipments should be financed out of foreign exchange assets other than those proposed to be earmarked for currency stabilization."

H. M., JR. What would those be?

Mr. COE. Their own dollars which they have, seven hundred million. They have two hundred fifty million.

H. M., JR. Is that clear?

Mr. COE. I think so, yes. I think the only thing here—

H. M., JR. It's their—I'd read that again, I don't get it.

Mr. COE. "However, in consideration of points 2 and 3 above, it is believed that further shipments should be financed out of foreign exchange assets other than those proposed to be earmarked for currency stabilization."

H. M., JR. I'd say out of your own. Just put in your own.

Mr. COE. All right.

H. M., JR. It can't do any harm. Out of your own.

Mr. COE. It invites a little argument. Isn't the loan their own, too? It's theirs only we have—

H. M., JR. All right. I accept that.

Mr. COE. "6. China should investigate and cancel sales to speculators and illicit purchasers and insure that only bona fide purchasers will receive such gold as is available. If gold arrivals are still not sufficient to meet past commitments, it is suggested that China may offer to place dollar credits (at about \$35 per ounce) for the time being from her existing assets to the accounts of purchasers of gold to whom she cannot temporarily make delivery."

H. M., JR. What I would put in here—it's a suggestion. Just write this out. Just put this down. We can argue about it. It is most unfortunate that the impression has arisen in the United States, and don't correct me, that the sale of certificates and the forward sale of gold have to a large extent gone into a few hands, largely for personal aggrandizement, and in this way has failed to be of assistance to the general Chinese economy.

Now, just think that over for a minute. Just read that back, huh?

Mr. FRIEDMAN. "It is most unfortunate that the impression has arisen in the United States that the sale of certificates and the forward sale of gold have to a large extent gone into a few hands, largely for personal aggrandizement, and in this way has failed to be of assistance to the general Chinese economy."

H. M., JR. And to this extent has failed.

Mr. COE. That's—

H. M., JR. And to this extent has failed. And don't tell me next week you're going to give me the list of the people that have these certificates. You're about two months past due—have you got it?

Mr. COE. We handed it to you, Mr. Secretary, in that period when we pulled things back.

H. M., JR. That's all right.

Mr. COE. Do you want it now?

H. M., JR. That's perfectly proper. Now I want it.

Mr. COE. Now he wants it.

Mr. ADLER. I would add bonds because the sale of those was even more concentrated.

H. M., JR. I meant—

Mr. FRIEDMAN. We'll add certificates and bonds and—

H. M., JR. I thought the certificates were the bonds.

Mr. FRIEDMAN. They have two types of issue.

H. M., JR. Not to be technical—whatever the correct thing is—what I want to do at the end there, just at the end, is this, say "Listen, T. V., old boy, I'm not saying this is so, but that's the impression." And if he argues about it, well, take a look at this.

Mr. COE. By the way, sir, the Peoples Political Council passed a resolution on this subject on April 8, much stronger than anything said here. They just said that the forward sale of gold had been a public scandal and cited the large amount of it which was sold in the one day right after—following the increase of the price and asked for an investigation, and I think for cancellation.

Mr. FRIEDMAN. Cancellation of the purchases on that day.

H. M., JR. I just want to let him know. I'm very courteous.

Mr. FRIEDMAN. But, Mr. Secretary, there's one aspect to that. If you show him any names, his organizations are going to be very prominent on the list and he might lose a lot of face in front of you.

H. M., JR. What?

Mr. FRIEDMAN. He might feel a very great loss of face in front of you.

H. M., JR. In front of me?

Mr. FRIEDMAN. To have this presented to you.

H. M., JR. Its just too darn bad. It just depends upon how ugly he gets. He may have to get a new face. Listen, it isnt only the Chinese who lose face. We have the same thing, but we don't talk about it all the time. I might say when Jimmy Byrnes announced the tax program without consulting the Secretary of the Treasury, I lost face, and so what? The Senior Senator and Senior Congressman on taxes sent me down a statement and said they were looking to the Treasury right after that, and I had my face back again.

Mr. BELL. You had to work hard to get it back.

H. M., JR. Look, this fellow, I know this boy. It just depends on how rough he gets, and if he begins to pound my desk or anything else, they won't have any troops, either. Leave it to me, but I just want to throw a little fear into him, see. When he says this impression is wholly false, I'll say, I wouldn't go that far. If you don't mind the sentence, you leave it to me to let him know that I know without saying it. I'll be very oriental.

Mr. COE. Yes, I think there's no question about that. It's about showing him the list, although they gave us the list in the first place, didn't they? But we identified the companies.

H. M., JR. My own impression is we should do that in writing.

Bell?

Mr. BELL. You mean do what in writing?

Mr. COE. This sentence.

Mr. BELL. That's all right. That's good.

H. M., JR. That's a good document.

Mr. COE. That's all on China.

H. M., JR. Aren't you going to loosen up a little if they do the five hundred million, and put that thing together—the exchange fund? You won't loosen up a little bit on the gold?

Mr. COE. Yes.

H. M., JR. I think so.

Mr. COE. The problem there is this—especially if they would investigate and cancel some of it—in May and June it doesn't amount to much. You get along into September and October, covering these recent sales, and it's—

H. M., JR. Well, I can't say, but if—how much are we letting them have each month?

Mr. FRIEDMAN. About two million per month.

Mr. BELL. How far forward have they sold—September?

Mr. FRIEDMAN. October now.

H. M., JR. Just leave it to me. If he puts the five hundred million stabilization fund together, we might make it three million. It's his own money. O. K., doc?

Mr. COE. Sure.

Mr. BELL. Has he the assets above five—

H. M., JR. He's got nine hundred million.

Mr. BELL. Including the two-forty.

H. M., JR. Nine hundred million.

Mr. FRIEDMAN. That's right.

Mr. BELL. More, when he gets the settlement.

H. M., JR. Next thing, how about this other? Do I do business with Kung or with Soong.

Mr. COE. I think you do business with Kung on this.

H. M., JR. Let's bring that up.

Mr. COE. Bring that up here.

H. M., JR. And if Mr. Bell has the physique and heart to do it, I wish he'd take that over for me if he won't mind. I mean, now that you're free of some of that stuff, supposedly.

Mr. BELL. Yes, I can do it.

H. M., JR. Would you do that, Dan? I would be a big help, because it means about five meetings of three hours each.

Mr. BELL. That's with Kung?

H. M., JR. Would you do that?

Mr. BELL. Sure.

Mr. COE. The Army hasn't given us next quarter's figures yet, so isn't it a waste of time to do it for one quarter?

H. M., JR. No. I would clean up the fourth quarter of last year.

Mr. BELL. Well, they have the figures. I'd like to give them as much as possible before this fiscal year, before we get June 30.

Mr. FRIEDMAN. You can have the first quarter in about three weeks.

H. M., JR. May I say this? If it weren't for the Army, I would start negotiations for the fourth quarter, and keep saying if it weren't for the Army you would have these figures. I don't want the Army to come back and say, "We asked you to do this thing." I think we ought to make a record that we tried to clean it up.

Mr. BELL. Fourth quarter of the calendar year. I'm talking about the fiscal year.

H. M., JR. I agree with you, but if you state it here and waited another three months, the Army would say these figures were in about ten days or two weeks ago.

Mr. BELL. We can go from one end to the other.

H. M., JR. And Mr. Bell will get some lovely tea and some flowers.

Mr. BELL. I've got some that has never been opened. [Laughter.] It's terrible to spoil a cup of tea.

H. M., JR. We're doing all right this morning.

Mr. COE. That finishes up China. We can get to work on that.

H. M., JR. Is your wife trying to fatten you up? Does she work around here [to Mr. Adler]?

Mr. COE. For us.

H. M., JR. Bring her here and let me say how do you do to her. Have you enough authority to do that?

Mr. ADLER. I think so.

Mr. FRIEDMAN. He can clear with Mr. Coe right now.

H. M., JR. Clear. Let me know and I'll step outside so as not to embarrass her. Tell them outside.

Mr. COE. I'm not sure she's in. I've told them to be generous and let her take a little time off.

H. M., JR. Now we're going to——

Mr. COE. France.

H. M., JR. Let's do Gutt. All right, your way.

Mr. COE. No, let's clear up Gutt because I think the Gutt thing is pretty simple in essence, Mr. Secretary.

H. M., JR. Which are we doing?

Mr. COE. Gutt. The only thing left in dealing with Gutt is for you to say the final "no" on what he wants, to say the final "no". We have spent hours on this. Dan has been——

H. M., JR. May I say this because I know something about this, and I don't want Dan to lose face so I'm not going to change what Dan has done, but as I understand it—you can check me on my figures—I'm not bad this morning considering.

Mrs. KLOTZ. Considering a headache like that.

H. M., JR. I couldn't sleep. When I give Bell something to do, and if I want to decide to change it, I want Bell to do it and not me, because he can't negotiate and have me do it. I think—and Bell—my figures aren't quite right. But from you I gather that we asked in advance for the Belgian Government to give us several billion dollars in francs, four or five billion.

Mr. BELL. About six million francs I think they took originally.

H. M., JR. And these fellows went down in their pocket and they didn't bother to say, you need them or don't you, and from their standpoint that was good money. Is that right?

Mr. BELL. It's on their bank statement.

H. M., JR. Yes. Then we come along with an estimate from the Army that we're going to spend this, and we don't, which was stupidity on the Army's part; but before we get through we'll spend how much?

Mr. BELL. It's hard to say.

H. M., JR. Make a guess.

Mr. BELL. The only figures they have in that are definite are the seven million dollars worth of francs that they have actually spent. Gutt says that he got in-

formation from Belgium that the soldiers have received thirty-six millions of dollars. Now what we have tried to do is get the Army to reconsider their figures and come some place between the seven and thirty-eight. They've got it up to thirteen.

Mr. COE. Thirteen and one-half, and when Gutt started negotiating he had only one million dollars in his pocket. So they've raised the offer, it's admittedly over six weeks. They've raised to thirteen and one-half. Also they are in the process of—

(Secretary leaves conference temporarily.)

(Discussion off the record.)

Mr. COE. I wrote off a little summary of this Gutt thing. Do you want to hear it?

H. M., JR. How long is it?

Mr. COE. A page. (Reads memorandum from the Secretary from Mr. Coe dated May 7, 1945, on information for your meeting with Gutt.)

"Recently the Treasury and War Departments have held many meetings with Gutt on the subject of settlement for advances of Belgian francs to the U. S. Army for troop pay. In calculating the amount to be paid, the War Department deducts the amount of currency which experience has shown will be returned by our troops through military channels. Gutt does not think that we should make this deduction.

"The War Department told Gutt on May 4 that it was certifying to the Treasury a payment of \$13.5 million. This is \$12.5 million in excess of what had been certified when Gutt began his discussions and is \$8½ million more than the War Department had agreed to pay several weeks ago. Gutt was also told that strong cables were dispatched to the Army in Belgium to reduce its outstanding advances.

"Gutt is still not satisfied. The War Department has indicated to him that no further steps can be taken before its regular certification to the Treasury about June 15.

"On May 4 you sent a letter to Gutt dealing in detail with the principles involved.

"Gutt will probably open this question with you again. I suggest that you state to Gutt that, since Belgium will receive all the dollars that are due regardless of the arrangements made and since the Treasury and War Departments' staffs are in agreement, he should not press the matter further. You could state also that you do not have the time available to consider this matter in detail."

H. M., JR. I would say Mr. Bell is handling it for me, period.

Mr. BELL. You could tell him it looks to you as though a great deal of progress has been made. He started with one million dollars and got thirteen and one-half and got strong cables sent to the Army to return those excess francs. Of course, you've got these finance officers scattered all over Europe and it takes a little time to gather them up and move them. How rapidly will they pay thirteen and one-half?

Mr. COE. Within the next few days, as soon as they get a letter to us.

H. M., JR. The last I heard somebody said five, six, or seven million, but it's up now to thirteen and one-half.

Mr. BELL. The thing that hurts is that the British have paid some eighty million dollars and the Canadians have paid—

Mr. COE. I'll give you this.

H. M., JR. That's all right with me. I thought five or six or seven is too little, but thirteen and one-half is all right.

Mr. BELL. That even is little compared to one hundred forty million. Maybe we can get that total they have down.

Mr. COE. The next is a promise to be discussed with Plevin.

H. M., JR. May I compliment you on the orderly manner with which you handle these.

Mr. COE. The next is a promise to be discussed with Plevin.

Mrs. KLOTZ. He was so serious last night.

H. M., JR. You had this on your mind?

Mr. COE. Not after the second martini. I began to feel better. Now this Plevin business is complicated. Among other things I thought that after your conversation with him you and he might issue a joint press release. But I think we'll see how it goes. Did you know Plevin was once Monnet's secretary?

H. M., JR. No.

Mr. COE. He was once Monnet's secretary. Pleven is a leading figure on the Right in current dealings in France. He succeeded in ousting Mendez France. He's close to General DeGaulle, and he will be interested in these negotiations we think, in trying to build himself up.

H. M., JR. When was he secretary to Monnet?

Mr. COE. I don't know the date, but he was.

Mrs. KLOTZ. I heard that too.

H. M., JR. The reason I question that is—

Mr. COE. He's an IT and T man.

H. M., JR. He was IT and T for France. He was here when I was doing—

Mrs. KLOTZ. This was previous.

H. M., JR. It must have been an awfully long time ago.

Mr. COE. I don't know of any previous government posts of his, but now I think that the one thing strongly on the negative side that we have in mind—and it's rather difficult to get over in these discussions—is that he has not cleaned house, in his bailiwick there, and that relates to one of the chief items of business with—

H. M., JR. You mean he hasn't gotten rid of collaborationists?

Mr. COE. He has of a few spectacular ones and a few small fry, but if you take the Schneider-Crusot Group and the De Wendel Group—

H. M., JR. What?

Mr. COE. The De Wendels. One brother is on one side of the line and one on the other. The whole group—we've got a memorandum here on some of these figures if you care to read it. If you take that whole group, they are still in power. In some cases, where a top man who is much in the public eye has been suspended, men of the same group, the equivalent of secretaries, have been put in. That's back of a lot of the politics in France. He is trying to bring these collaborators back in, start all over again without too much recriminations, and rocking the boat as little as possible.

H. M., JR. That's not so good.

Mr. COE. Now, the first subject that we think needs to be up is the troop pay—usual complaints of the troops about that. And essentially what is expected from Pleven when he comes to see you is that he will say that France is ready to enter on this long delayed program where we've talked with them in Paris. We've talked with them here at a subordinate level, and we've told them that when Pleven came in we certainly thought they ought to volunteer such a program.

H. M., JR. Did you tell—I wanted a memorandum of what he wanted to bring up—Did you tell that to Monnet?

Mr. COE. I don't recall.

H. M., JR. Did you tell him I'm only going to be here that one day?

Mr. COE. No. You asked me who was getting in touch with him and I thought the way this thing was arranged—I thought it was agreed that it was arranged between you and Monnet—that you had arranged it.

H. M., JR. I thought I had told you, but maybe, I didn't. Tell Pleven to get up an agenda. You tell him I'm going to leave here Thursday afternoon because I'm going to see Mrs. Morgenthau, so they better move fast.

Mr. COE. Yes.

Mr. BELL. He's just going to be there this coming week.

Mr. COE. He's just going to be here a few days I think. Well, we think that after discussing this and seeing what kind of program he brings in and emphasizing the importance of it to us, essentially the thing to do is to tell him to go see McCloy and Hildring and work it out. I believe they're going to say that the negotiations have to be in Paris and that the man has to be nominated from there, and we think it should be an army man.

Mr. BELL. That's on the troop pay?

Mr. COE. Yes.

H. M., JR. We don't want to do troop pay for the Army.

Mr. BELL. This is inflation.

Mr. COE. This involves setting up U. S. O. camps and that sort of thing and you can't settle the matter over here. They've got to work out the details.

Mr. BELL. Do you think they will agree to do it?

Mr. COE. I think they'll agree.

H. M., JR. When Gutt comes here tomorrow at three I want both of you. What else?

Mr. COE. The second one is this issue of defrosting the French assets.

H. M., JR. That's the darndest. It's all right—ice box language.

Mr. COE. We're prepared. We don't think we can hold these assets without progressive relaxation and at a technical level Foreign Funds and the French have worked out a program for unfreezing. Under this program everything would be under French license.

Mr. COE. The French would have the responsibility of seeing that certain assets here were non-enemy, but partly because of the way Plevin is running his show and not dealing with anything except obvious cases, we want to get in writing from them a number of assurances that—

H. M., JR. Why should they do any of this for us?

Mr. COE. In this case it's we who are doing it for them.

Mr. BELL. We give France general license, no?

Mr. COE. No. There are still considerable areas which are not generally licensed. We want them to agree, for instance, that American creditors are going to be taken care of on a reasonable basis. We want them to agree that some of our custodial rights in these assets which are German or later turn out to be German are still recognized. Nothing except assertion from them would ultimately excuse us.

H. M., JR. Did you boys have a good talk with Ambassador Braden about going down to Argentina?

Mr. COE. He's still sold on it and he says as soon as he gets down there he's going to get in touch with us.

H. M., JR. All right.

Mr. COE. Well, again, I think if these assurances are mentioned and you have the stuff in front of you at the time, the working out of such assurances can be turned over.

H. M., JR. It would be useful if I could have a document. You see, in this case if they give me one, maybe I would be prepared to give them something.

Mr. COE. The third issue is the rate of exchange. The Army wants it changed. They've told us they are going to change it. I believe at the time they set it the United States—

Mr. BELL. French gold.

Mr. COE. I believe at the time they set it the United States Treasury told them they were setting it too high and wouldn't be able to maintain it. They recognize that now.

H. M., JR. They didn't set it too high. Wasn't it one and one-half.

Mr. BELL. That was African rate. The French Committee set the French rate.

H. M., JR. I don't remember.

Mr. BELL. We told them at the time it was too high and they would not be able to maintain it, but we did accept the French committee rate.

H. M., JR. That's good, I'd forgotten that.

Mr. BELL. The President had only set the one in there.

Mr. COE. They'll probably raise the question of financial assistance, and I suppose you know the two answers there, (1) that we can't give any guarantees here on Lend-Lease on that 3-C program, because I think that's the State Department calling a meeting on that and I think it's going to be decided to cut that; (2) when Bretton Woods gets through, the Export-Import Bank is expanding. We just haven't any money.

Mr. BELL. They're pretty well fixed, aren't they, for foreign exchange?

Mr. COE. For a short time, but their problems are terrific. They'd like to get help. The next one they'll press is to get a promise that we will give them all the French assets in this country. We don't want to do that.

(Discussion off the record.)

Mr. COE. Well, we're a little inconsistent in not giving them this information, but until Bretton Woods gets through we'd just as soon rock along on what we're doing.

H. M., JR. What information?

Mr. COE. The information about who owns French assets over here. If they come to us—the present arrangement is if they come to us and say that someone is violating their laws or they're going after him for previous collaboration, we'll furnish the information to them.

H. M., JR. Why don't you want to give it to them?

Mr. COE. Because the bankers are likely to rise up and say that what we are doing in giving them this—the F. R. three hundred—for is just symptomatic of the way the Fund and the Bank will be operated to invade the private field.

H. M., JR. I see.

Mr. COE. And we are certainly giving them everything they need right now and they are not pushing vigorously on this front. You may want to talk about

internal French financial policy. You may want to talk about Germany. I don't know. If we ask them for an agenda, we can leave it up to them.

H. M., JR. I think so.

Mr. COE. That's all on France, and we'll try to have it—

H. M., JR. That's a very good meeting.

Mr. COE. One more subject.

H. M., JR. My God, what is it?

Mr. COE. German gold.

H. M., JR. Oh, that's easy.

Mr. COE. No; it isn't going to be easy ultimately.

H. M., JR. Now, Dan, anytime you don't want what we're doing—

Mr. BELL. This French thing is something new to me, and I'd like to get that memorandum.

Mr. COE. I'll get copies of all this. The only immediate issues on the gold are, shall we send some men over there to weigh it, and the answer is unquestionably "yes."

Mr. BELL. They're all ready to go.

Mr. COE. They're all ready to go. Second, shall we let the British go in and look at it?

H. M., JR. I've answered that.

Mr. COE. You answered that?

H. M., JR. I answered it twice, and now I answer it the third time, "yes".

Mr. COE. But we do want to take an opportunity, and this is it, to say that there are about four courses of action ultimately for this gold; (1) it can go into the reparations kitty (2) it can be handled as United States war booty (3) if there's a program of restitution, and the Treasury itself has made some statements that would sound as if there were to be one—for instance the gold declaration—then certain countries will have claims against the gold for restitution. If you start the restitution way, it balls up your reparations. If you go war booty way, you're going to have trouble on the reparations front. Now, we can't tell how the reparations program is going to turn out. We don't know whether we're willing to let it go for reparations.

H. M., JR. I'm not going to decide that.

Mr. COE. Some of these courses of action tend to get decided.

H. M., JR. The only decision I'm going to make now is to let the British take a look at it.

Mr. COE. Doesn't that prejudice your case in handling war booty—it's what some of the lawyers say.

H. M., JR. You tell the lawyers for me to go read a dime novel.

Mr. BELL. It probably does raise the question, or subsequent questions will come to the front more quickly by this decision, but nevertheless you're going to have requests probably from the Yugoslavs and others, to go in there, also to the French. However, I think this thing has been put in the combined channels and I don't see how you can make any other decisions, do you really, Frank? They've put it in combined channels in SHAEF. Now, the British know all about it. They know there is a request to send people over there to—

H. M., JR. I'd be furious if they told me "No".

Mr. BELL. I think the British would be furious.

H. M., JR. Do you know what you sound like today? You sound like Harold Glasser, on this. I bet this is Glasser's worry.

Mr. COE. No. I think DuBois is the one in favor of the booty. Harold is in favor of reparations.

H. M., JR. I'm not deciding anything. I can't say to the British they can't go look at it. It doesn't decide anything.

Mr. COE. We agree with you there, but there are going to be subsequent steps. Other countries are going to want to look at it, and we're recommending they go in and look at it.

H. M., JR. In charge of a mission.

Mr. BELL. I really think that the decision has already been made. We shall have to put it into combined channels.

H. M., JR. I didn't know they did that.

Mr. BELL. The cable came from SHAEF, and that's a combined organization.

H. M., JR. This is the third time I have answered that.

Mr. COE. There's agreement in State and War that a lot of other decisions will be coming along and we want to flag them for your attention. There are three or four ways of handling it so that we consider each would be—

H. M., Jr. You put me on notice.

Mr. COE. That's right.

H. M., Jr. All right, anything else?

Mr. COE. That's the lot.

H. M., Jr. It's a good session. All right?

Mr. COE. That's the last. Thank you.

H. M., Jr. Thank you, Frank.

Mr. COE. One more thing, Mr. Secretary, may I? I think if there is any question as to who is going to be at this afternoon's session with Soong, I favor it being yourself and Clayton, because I think Clayton is getting hurt feelings about the number of things in his bailiwick which he comes over here and handles. This is one in our bailiwick.

H. M., Jr. A couple of things that come over here?

Mr. COE. He made a comment in the hall the other day, he might as well open up an office here.

H. M., Jr. He's right. Is that all he said?

Mr. COE. He made a joke to one of his men on the thing, but—

H. M., Jr. Well, he asked to come over here at two fifteen. I didn't suggest it. He said I better call them together. Did you know that?

Mr. COE. Yes, I knew that, and that's certainly one of his men agitating with him. But enough on this thing. Soong came first to the State Department and left a general memorandum there.

H. M., Jr. Well, you mean I should ask him to stay until three o'clock.

Mr. COE. Certainly, ask him if he wants to.

H. M., Jr. Then he'll say he needs two offices over here. Don't let that worry you. Mr. Will Clayton needs me very much more than I need him, but that's all right, but—well, don't get me started on that.

(Mr. Coe leaves conference.)

Mr. BELL. Fitzgerald asked me to take up with you the question of the Roosevelt dime; that O'Connor is leaving tomorrow and he wanted a decision. There's a recommendation that Mrs. Ross put up to me.

H. M., Jr. I'm against it.

Mr. BELL. You don't need legislation on it. The twenty-five year period has lapsed.

H. M., Jr. What is this? What is it they want?

Mr. BELL. They want to make the dime memorial to Roosevelt and put it out next January in connection with the "Mile of Dimes."

H. M., Jr. Are you for it?

Mr. BELL. I think it's a nice thing.

H. M., Jr. Do we need any authority?

Mr. BELL. It's at your discretion, because the twenty-five year period has lapsed.

H. M., Jr. I'm not going to do the thing without speaking to Mrs. Roosevelt.

Mr. BELL. It's really a part of the committee work in it. She wants you to announce it and let the Treasury get the credit, because we're getting a lot of letters. A bill has been introduced to Congress.

H. M., Jr. You call Basil O'Connor, and call Mrs. Roosevelt for me and ask her what she thinks.

I think it's all right, but I want to consult Mrs. Roosevelt.

Mr. BELL. There's also the question of whether we should have a two hundred and fifty dollar denomination bond with Mr. Roosevelt's picture on it—one hundred and eighty-seven dollars. That should be in the Eighth War Loan. We ought to start engraving it if we want to do it. Ted and I are in favor of it.

H. M., Jr. Two hundred and fifty dollars?

Mr. BELL. Yes.

H. M., Jr. That I don't have to ask Mrs. Roosevelt about; that's all right.

Mr. BELL. You don't have to announce it either, unless you want to tell the committee when we meet. We can start Hall engraving that. On June first there's four billion, seven hundred seventy million dollars of certificates maturing. And we've got a certificate in the drive which will mature on June 1, 1946. So we want to make this four billion, seven hundred seventy refunding into a ninety percent note—thirteen month note which will put the maturity on July 1, 1946. The drive certificate would mature June 1, 1946, and this one will come in July.

H. M., Jr. All right.

Mr. BELL. There's also maturing June first, seven hundred fifty-five million of the one and one-half percent Home Owners' Loan Bonds which we call for

payment that date, about eighty some percent. George's memorandum to you says that these bonds are owned by banks, so we recommend that the holders of those securities be offered the opportunity of going into the ninety percent note, the Gay Nineties Note, and that has the unanimous recommendation of the Federal Reserve Board and Executive Committee.

H. M. JR. Okay.

Mr. BELL. On May fifteenth, not later than May fifteenth, we ought to call the two and three-quarters percent bonds of 1945-1947. They're outstanding in the amount of one billion two hundred fourteen million, and I have the papers here for you to sign and I thought you might suggest in the last paragraph that you give that out informally to your press conference Thursday.

H. M. JR. Will you remind me?

Mr. BELL. And we'll announce it officially on the right dates.

(The Secretary signs attachment A and attachment B.)

Mr. BELL. This press release will be given to the press Saturday the twelfth, for release Monday.

H. M. JR. I hope that's all.

Mr. BELL. That's all.

H. M. JR. Good. I'm tired. Thank you very much.

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#### EXHIBIT No. 347

[Vol. 845, pp. 314-322]

MAY 9, 1945, 9:30 a. m.

#### GOLD TO CHINA

Present: Mr. D. W. Bell

Mr. Coe

Mr. Adler

Mr. Friedman

Mrs. Klotz

H. M., JR. Look, you people, I think should be severely criticized for letting me go into court and try my case before T. V. Soong, and the letter of July 27, 1943 where I gave the Chinese Government a firm commitment on two hundred million dollars worth of gold—I think it's inexcusable. After all, you were so worried about saving face, what about my face? I have given, in writing, the Chinese Government a firm commitment that they can have two hundred million dollars worth of gold and you—I don't remember it, I can't remember it. I do ten things a day. Bell comes in here and in three minutes we settle ten billion dollars worth of financing, and it's impossible for me to remember, and you put me in an absolutely dishonorable position, and I think it's inexcusable. I think it's absolutely inexcusable to have me bargaining and chattering around when right here in writing is this thing.

Mr. COE. Mr. Secretary, in this proposal to the Chinese we did not say that we would not give them the gold.

H. M. JR. That has nothing to do with it. I am facing the Acting President of China, and here I am put in the position that I am bargaining with him about something that I gave my commitment he could have. Now, in this world, and certainly Government to Government, a person's word, and particularly his written word, means something. One of you three should have said, "Now remember, Mr. Secretary, on July 27th, 1943, you told them they could have it. Now, do you want to bargain with them about it?" You are so worried about his face. What about my face? What about the honor of this Government? I think it's inexcusable.

Mr. BELL. Can't they still get the two hundred million dollars over and above the five hundred million dollars?

H. M. JR. That isn't the point.

Mr. BELL. They could still get it under the memo, couldn't they?

Mr. COE. Yes.

H. M. JR. Oh, yes! That isn't the point. Now I was worried last night wholly independent of this, and anything else, and I figured these people were being kicked around from pillar to post and I was worried. Will Clayton called me twenty minutes to nine and asked if he could see me. I told him yes and he

dashed over to the Navy Department to sit there waiting to see me and he brought this stuff here to show me, and I promised to give it back to him. He was very nice about it as a friend, but in talking this morning with Forrestal and King I wanted figures so I could talk about the Seventh War Loan. I got nothing, so I got them on China, and Admiral King tells me that the Chinese are doing much better. He couldn't talk about it, but General Wedemeyer has to do just what they wouldn't let General Stilwell do, and they are really getting somewhere, and they are really fighting and moving. This is all confidential, this stuff out of Burma, and they are going to have eleven or twelve Chinese Divisions fighting against the total number of British Divisions of six, and they are good Divisions. The Chinese are really doing it, and here I am acting like a huckster over something which has been settled on the 27th, whatever the month is, 1943. I don't like it.

Mr. COE. I think there are two parts to this.

H. M. JR. Why, in God's name, didn't you bring this letter to my attention, Sol? You knew this existed!

Mr. ADLER. I wasn't aware of it explicitly. I had seen it in the file but—

H. M., JR. You didn't know about it?

Mr. ADLER. I knew—

H. M., JR. You should have—what about you?

Mr. FRIEDMAN. Well, Mr. Secretary, if I may say, on this specific thing, you will recall that at the time of the 1943 letter, when you signed the letter, you and Mr. White discussed it with P. W. Quo and Mr. Hsi Temou and the Chinese at the time the question of two hundred million dollars of gold came up. You expressed to them that you were considerably doubtful as to this whole idea, and they said to you that the President said to Madame Chiang that they could buy the gold, and you told them and Mr. White told them that you could make the commitment to buy the gold for anti-inflation and for anti-hoarding purposes. Then we very deliberately at the time put into that document all this reference to anti-inflation and anti-hoarding purposes, because you were afraid at the time that they might use the gold for other purposes, and you didn't feel that that would be a justifiable use of the two hundred million dollars. And we have all along in conversations after that with Mr. Quo and Mr. Chi, who were designated by Dr. Kung, stressed it that the gold was being sent for anti-inflationary and anti-hoarding purposes.

H. M., JR. That's all very nice, but in cold print there it's "You can have the two hundred million dollars of this money for gold."

Mr. COE. And, Mr. Secretary, your proposal as given to Mr. Soong yesterday does not at any rate in cold print dishonor your letter in 1943. What you said to him in that proposal was (1) we would like the Chinese Government to segregate one sum of money and another sum of money. Obviously, if they decide to segregate for a stabilization fund the remainder of this sum, you cannot give them the same sum over again for gold.

H. M., JR. Did you know about the letter of July 27th?

Mr. COE. Yes, sir.

H. M., JR. Well, I certainly think somebody would have said before I went in to this conference, "Here's this letter. Here's what you said, Mr. Morgen-thau."

Mr. COE. The whole basis, as I understood it, of the Treasury giving them limited sums of gold over a longer period had been the original statement that we would, and month by month they were told there is so much transport available.

H. M., JR. But White told me we were running out of excuses.

Mr. COE. The only excuse I ever heard—I have picked this stuff up—the only excuse I have ever heard of has been transportation, and we all think that transportation is a thin excuse.

H. M., JR. Well, I made my statement. I think, before I went into that meeting yesterday morning, I should have been shown this document so that I knew that there was a written commitment that they could have two hundred million dollars worth of gold. I've told you how I feel. Let's get on and see what we can do about it. What Clayton wants is this: We suggested that we—you fellows immediately get in touch with his people and work out some kind of condition, see?

Mr. BELL. Clayton's people?

H. M., JR. Yes, work out some kind of conditions, and I personally think—I mean as to how the gold will be used—I personally think that if we say to

these people—you set up this file in the first place—I am going to say, “Now, look, I can recognize a letter. The gold is yours, but for future relationship can we work out something?” See? “And I think it would be good for China if you would set up this five hundred million dollar stabilization fund, and I think it would also be good for future relationship if you would tell us how you propose to use this gold and stop forward sales.” How much did they sell, fifty million?

Mr. COE. Sixty million.

H. M., JR. And is I remember it, roughly they have used twenty-seven million dollars worth of gold. Is that right?

Mr. ADLER. That's right.

Mr. FRIEDMAN. Out of two hundred million they bought twenty and shipped about eight or nine.

H. M., JR. They borrowed?

Mr. FRIEDMAN. Out of that two hundred million credit, they purchased about twenty and they would, under that commitment, be able to buy an additional one hundred and eighty million dollars worth of gold. You see, they had gold on earmark which they exported before on the two hundred million dollar credit.

H. M., JR. Of the two hundred million dollar commitment I have given, they have used how much?

Mr. ADLER. Twenty.

H. M., JR. And of that twenty how much has left the country?

Mr. FRIEDMAN. About eight.

H. M., JR. About eight? Well, I think we should promptly begin to move this gold. I think I heard you say something about one hundred million dollars. How much is that?

Mr. ADLER. Two hundred million dollars. It runs about five million ounces.

H. M., JR. How much of that has left the country? Eight?

Mr. FRIEDMAN. Eight.

Mr. BELL. The balance is about one hundred and eighty.

H. M., JR. How much are they asking for?

Mr. FRIEDMAN. They ask for one hundred and eighty million dollars worth of gold of which they want 50 or 60 million shipped immediately to cover past commitments and sufficient additional amounts to have a spot sale program.

Mr. BELL. They want to get on a cash basis.

H. M., JR. All right. I think we should meet that. Now, provided, if we can get it out of there—their setup is five hundred million stabilization fund.

Mr. COE. If they could do that, sir, if they set up the stabilization fund, then they haven't the money. I mean, they haven't any loan money for the gold. They will have to use their own money. That's the purpose of the stabilization fund vis-a-vis the gold.

H. M., JR. I understand.

Mr. COE. So that it would seem to me the first thing is for T. V. Soong to tell you definitely that they don't intend out of the loan to segregate it as you suggest.

(Mrs. Klotz leaves the conference.)

Mr. COE. They don't like that proposal. They would rather have the gold—take it in gold. Then you are up against the proposition of your original commitment.

H. M., JR. I don't follow you.

Mr. COE. Well, they have left two hundred and forty million dollars out of the loan of which, getting back to your letter, you can say one hundred and eighty million dollars you told them in 1943 is available for gold shipment.

H. M., JR. That comes out of the two hundred and forty.

Mr. COE. Yes. The rest of the loan has gone on other purposes. Now, then, it's up to them following what you gave them yesterday for T. V. Soong to say, “We don't want to segregate the two hundred and forty that way. We want to hold you to your original commitment on the gold.”

H. M., JR. I have asked them to have lunch with me. Get me up a little one-page memo on what has happened to the five hundred million.

Mr. COE. We have that here.

H. M., JR. And what happened to the rest? Did you know about the letter of July 27th?

Mr. BELL. No.

H. M., JR. Don't you think it puts me in an impossible position?

Mr. BELL. Well, I thought that after the letter was read yesterday that you could still comply with the letter under the memo. That's what I thought.

Mr. COE. That's what we thought.

Mr. BELL. You probably intended to change the situation around a little but I thought you could still comply with the letter and still go through with the memo. Is that right?

Mr. COE. No, we thought that the Chinese, if they agreed to segregate the fund would thereby not want gold. They would decide they would draw gold out of their own fund rather than out of the loan, and they would take the two hundred and forty that is left and put it aside.

Mr. BELL. If they have nine hundred million dollars to their credit, they could still take the gold and still set up the five hundred million dollar stabilization fund. That did not preclude them from taking the gold, as I remember the memo.

H. M., JR. But they did not have the letter in mind when they wrote the memo.

Mr. COE. I may say I don't—even if I didn't have the specific letter in mind, I was operating entirely on the fact that we are as a general rule and through that letter committed to give them gold. We had been saving transportation facilities, and so what we wanted since the gold is now smelly is to have the stuff put aside in a stabilization fund.

H. M., JR. Smelly?

Mr. COE. I mean, since the gold transactions are under attack, we want to put it aside in a stabilization fund.

H. M., JR. It's under attack on their side. I'll tell you what you fellows do. Now, suppose you get together with the State Department and be in here at one o'clock to give me something which comes within the spirit of this letter. Suppose he said, "No, I don't want to set this aside. We'll use our own money for gold." That's what he will say, isn't it?

Mr. BELL. Probably, and I would say, "All right, you can have the gold, but will you set up a five hundred million dollar stabilization fund out of your other resources?"

Mr. COE. And also, "Will you please—" and I think he is willing to do that, "Will you please, if not, terminate the forward sales of gold?"

H. M., JR. All right. I have given you fellows hell! He has got a proposal to tell me. I am going to listen to his proposal. I am not going to change my attitude from yesterday. I am just going to listen and then say, "Well, Dr. Soong, I will listen and give you an answer at four o'clock." See?

Mr. COE. Mr. Secretary, I want to make one thing clear. You say the memo is different from the letter. There is nothing in the proposal you handed him yesterday which contradicts the letter, maybe the spirit of it, but there is no—Collado rang me this morning and Clayton had talked to him, and I said the same thing to him.

Mr. ADLER. Collado said that to me at the meeting. He said it after Dr. Soong read the letter.

Mr. COE. Here is some of the stuff from China.

H. M., JR. I am going to have to stop now because I have to get ready for the President. I'll have to stop on this thing. You fellows come back in here at one o'clock.

Mr. COE. You don't want this for the President, the ribbon copy of the memo?

H. M., JR. On China? No, not in view of what has happened. But you people be back here at one o'clock, just before I see Soong.

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#### EXHIBIT No. 348

[Vol. 846, pp. 32-36]

MAY 10, 1945, 2:00 P. M.

#### GOLD TO CHINA

Present: Mr. D. W. Bell  
 Mr. Coe  
 Mr. Friedman  
 Mr. Adler  
 Mr. White  
 Mrs. Klotz

Mr. WHITE. Do you want to discuss this or not?

H. M., JR. Since you left we don't discuss things, we just work.

(Secretary reading letter to Dr. Soong, dated May 10, 1945.)

"I am replying to your letter of May 9, 1945, regarding our discussions on gold and the establishment of a \$500 million fund. I shall be glad to have your reply on the fund suggestion as soon as you have heard from the Generalissimo.

"As I informed you yesterday, the Treasury will consider steps to accelerate gold shipments to China.

"I am looking forward to seeing you again at which time we will be able to refer the gold question and the establishment of a \$500 million fund."

Now, the one seems to contradict the other. You say the Treasury will consider steps to accelerate the gold shipments—

Mr. COE. There's a question of money still left open there and we thought we would give it to them out of their money if we could. They have twenty million dollars of earmarked gold.

H. M., JR. Oh.

Mr. BELL. That's going to worry him.

H. M., JR. I don't like that "accelerate gold." I don't like that. Is that White? [Laughter.]

Mr. WHITE. No; that can be taken out because basically it—

H. M., JR. I'll tell you the question now of good faith here, Harry. I don't know if they have had a chance to explain this to you. I am in a kind of embarrassing position. I think—

Mr. BELL. The whole financial question is what you are discussing.

Mr. WHITE. You can leave that phrase out if it troubles you. It doesn't add much.

H. M., JR. I don't see why it can't be rewritten, leaving out the third paragraph. As I informed you yesterday, the Treasury will consider extensions to accelerate gold shipments to China. He doesn't say anything about hoping to see me.

Mr. WHITE. It doesn't matter because the position we are in is the same position we have been in for a long time.

H. M., JR. That still leaves it open to argument. Just take a look at that.

Mr. BELL. I think it's all right.

H. M., JR. Let it go.

Mr. COE. Harry cut out one paragraph. You cut out another—

Mr. WHITE. It's all right.

H. M., JR. I could send a letter, "Dear Mr. Soong, Yours truly."

Mr. COE. I'm glad it's not going up to the President.

(Mrs. Klotz leaves conference.)

H. M., JR. I'll sign it before I go.

Mr. BELL. He formerly thought he wanted fifteen minutes with you.

H. M., JR. The trouble was Senator George's meeting at one-thirty was called off but he told him he would be there at two-thirty.

Mr. WHITE. I understand you were troubled about the letter of the two hundred million. Mr. Secretary, we have always taken the position we had absolutely no legal grounds for withholding the gold; that what we were doing was skating on thin ice and offering excuses and we were getting away with it as long as we could, and remember because I said we are getting away with it that you better get the President's backing when they begin putting on the heat. It's because I said we have no basis for it. We have been successful over two years in keeping them down to twenty-seven million and we never understood why the Chinese didn't take it in there and do what they are now doing. The whole history is we had no basis for it.

H. M., JR. I can't remember things that happened, and when he flashed that letter on me it caught me sort of off guard and I didn't remember it.

Mr. WHITE. That letter grew out of what you thought the President promised Madame Chiang-kai-shek.

H. M., JR. They refreshed my memory, but the trouble is that, Harry, I think that the Army and State Department have advised me very badly on this thing last week and suddenly Will Clayton woke up to that fact himself, entirely on his own, and all the indications are that the Chinese are really going to fight. This man comes here now and he gets a cold shoulder, gets bounced around, he gets nothing. He may get four thousand trucks and this is the money which we have committed ourselves to, and I have sort of come to the decision that I don't know how far I'll go, but I certainly want to loosen up, and I think this is a psychological time for the Treasury to demonstrate we can be a friend to China, when they really need it, with their own money.

Mr. WHITE. That isn't the same way I'd do it. I'll drop that. I do think you need to have now for your own record—and this is wholly for your own record—you need now an exchange of letters from you to the President indicating that this money is being badly used. It will not help inflation and cannot be justified on economic grounds, and that the only basis, for it must be that they feel it is militarily necessary to satisfy his demands. Because, Mr. Secretary, this record—we have advised them against the use of this. It has been badly used and all the rest.

H. M., Jr. I'd just do this, because I am pressed so, but over the week end prepare such a letter and when I come back—there was a letter originally written on that to Mr. Roosevelt which I never took over.

Mr. WHITE. It was a memo but the history of your negotiations with China are clear enough on that point.

H.M., Jr. This will give you a chance to get back into working habits again, to do this over the week end. It will be a nice way to break your way in Harry. Glad to see you back.

Mr. WHITE. When are you coming back, because I want to tell you what was in the letters that apparently you didn't get. [Laughter.] They are not on your desk.

Mrs. Klotz. It could be I haven't cleared all my mail today.

H. M., Jr. Well—

Mr. WHITE. What do you mean, today?

(The Secretary signs letter to T. V. Soong, dated May 10, 1945.)

H. M., Jr. I go up either Sunday night or Monday to Buffalo, and I'll be back Tuesday.

Mr. WHITE. Will you have ten or fifteen minutes between now and tonight?

H. M., Jr. I will try. It depends on how long I am on the Hill. We have quite a fight on our hands. I'll try to. I won't make any guarantee.

Mr. WHITE. I'll be here in case you have, or if you want, I'll ride down to the airport.

#### EXHIBIT No. 349

[Vol. 847, pp. 33-47]

MAY 15, 1945, 5:00 p. m.

#### GOLD TO CHINA

Present: Mr. D. W. Bell  
Mr. Friedman  
Mr. Adler  
Mr. Coe  
Mr. White  
Mrs. Klotz  
Mr. Pehle

H. M., JR.. T. V. Soong wrote me a letter and said he was leaving town. What day was that? Thursday.

Mr. COE. They know your movements better than we do because one day I said you wouldn't be in until over this last week end, and T. V. was mad and said, "I understand he is going to be in Sunday." (Laughter.) I don't see how he could have known because I only knew it Saturday noon.

Mr. WHITE. He didn't ask to see you, did he?

H. M., JR. What? So I though we'd have a little preliminary meeting, but maybe we won't have to have it at a quarter of nine if we have it now.

Mr. WHITE. I think it's better to have it now because we have a memorandum prepared, and we thought that it would be preferable to get State Department concurrence in it, but we didn't have a chance to clear it with you, so what we did is send over a carbon copy saying you hadn't finally approved it yet, so if you want to change it, we can without commitment. On the other hand, they'll have a chance to see it this afternoon.

(Mr. Coe reads "Memorandum for the President; Subject: China.")

"In accordance with your instructions, I have been discussing the Chinese request for about \$200 million of gold with the other government agencies concerned and with Dr. T. V. Soong.

"It was agreed by all the agencies concerned that—

"(a) we are anxious to give full support to an effective antiinflationary program for China;

"(b) the gold sales policy, which was initiated against Treasury advice, is not an effective antiinflationary device;

"(c) the history of the Chinese uses of the \$240 million which they have so far received from the 1942 \$500 million loan threatens to become a scandal in the United States as well as in China;

"(d) the exhaustion of the \$500 million loan would invite requests for additional financial aid probably on a larger scale.

"Therefore, I gave Dr. Soong a memorandum endorsed by the State and War Departments and the Foreign Economic Administration in which we proposed to Dr. Soong—

"(a) the establishment of a \$500 million Fund for combating inflation and stabilizing Chinese currency, to be constituted from the outstanding \$240 million of the 1942 \$500 million loan and from China's very substantial dollar balances, and

"(b) the termination of the present gold sales program and the continuation of only limited shipments of gold to China to be financed out of her dollar balances.

"Dr. Soong, in reply, insisted that China must have the nearly \$200 million of gold out of the remaining \$240 million of the 1942 loan. He cited commitments made in July 1943 by Mr. Roosevelt and myself under the \$500 million financial aid agreement. By so doing, he was, in effect, turning down our proposal for a \$500 million Fund for combating inflation and stabilizing China's currency."

(Mr. Friedman enters the conference.)

H. M., JR. You have the timing of this wrong. He flashed that letter on us first.

Mr. COE. What?

H. M., JR. He flashed this letter on us first and then we made the suggestion afterwards, I think, if my memory serves me right.

Mr. COE. I don't think we say anything in here about the timing.

H. M., JR. Wait a minute. This gives the wrong impression. Dr. Soong in reply cited commitments made by us. By so doing, he was, in effect, turning down our proposal. I don't think we made the proposal until after he flashed that letter on us.

Mr. COE. No, sir. We handed him a memo in a meeting in your office. In the middle of that discussion he referred to the letter, and then he went to see Clayton and showed him that.

H. M., JR. Are you sure of that?

Mr. BELL. That's the way I remember. He read the memo first.

Mr. COE. And asked to speak to his colleagues in Chinese first.

H. M., JR. If you say it's all right—go on and read.

Mr. COE. "He stated that he was referring the question of the Fund to the Generalissimo, but if we accede to his request for the gold immediately, such a reference would be purely formal.

"The present Chinese gold sales policy has culminated in a public scandal in China. To make large shipments of gold to China at this time, particularly without making every effort within our commitment to induce the Chinese to withhold their request, would make the Administration vulnerable to criticism at home.

"It was implicit in all our arrangements with the Chinese that effective use be made of the funds made available to them from the \$500 million financial aid. Dr. Soong advanced no new argument for us to revise our judgment that the sale of gold is not an effective anti-inflationary weapon and that it represents a dissipation of China's foreign exchange assets which she will desperately need to restore economic stability.

"The State Department has concurred in the suggestion that I therefore inform Dr. Soong that:

"(a) You feel that the Chinese should give most serious consideration to our recommendation for the establishment of a \$500 million Fund, and"

Mr. BELL. Meaning the President?

Mr. COE. Meaning the President. Maybe we should say that. Say you—

H. M., JR. Just a minute. All right.

Mr. COE. "(b) You agree that it is in the best interests of Chinese-American relations that China withdraw for the time being her request for immediate heavy shipments of gold.

"With respect to the Chinese requests for trucks and textiles, after discussion among the various agencies concerned, we were able to assure Dr. Soong that

there was every likelihood that his request for 4,000 trucks would be met. Dr. Soong was informed that the textile situation was very tight and that it would probably be another week or two before any definitive decision could be reached since the over-all situation was now being reviewed. The agencies concerned are also going forward with discussions for enlarged lend-lease aid to China."

H. M., JR. The first thing I want, please call up whoever has a copy at the State Department. I want them immediately withdrawn, immediately. I'm not going to follow this position. It's ridiculous. Will you please, wherever they are, get them right back.

(Mr. Friedman leaves conference temporarily.)

H. M., JR. I mean, you just keep going over the same ground, the same ground, the whole time. This doesn't make it plain to the President of the United States that these people own this gold, that I, over my signature, told them they could have two hundred million dollars worth of gold.

Mr. WHITE. That's where I disagree.

H. M., JR. I know you do.

Mr. BELL. You did that the other day, too, didn't you? What did we say the other day in a letter?

Mr. COE. We said to them in a letter that we were prepared to give every consideration to methods of accelerating gold.

Mr. BELL. After he flashed that letter; I think that's right.

H. M., JR. We're just going back again over most recent letters. That's the point you made.

Mr. WHITE. The Act which turned that over to you is pretty specific on the question.

H. M., JR. I'm very sorry, Harry. I wrote him a letter again the other day.

Mr. WHITE. There was behind all this oral discussions, and it implies the fact that any money you gave would be effectively used. There were several discussions which brought out that fact that they were supposed to be using it wisely.

H. M., JR. Is there anything in writing?

Mr. WHITE. And they're not using it wisely.

H. M., JR. Anything in writing?

Mr. WHITE. No. I think that the time to stop that is now.

H. M., JR. But this memo is going back again on the letter I sent him Thursday. If I handed this to the President, it goes back again to the letter I did Thursday.

Mr. COE. The letter you gave them Thursday, Mr. Secretary, said that you were considering it. Have you got it?

(Mr. Friedman reenters the conference.)

Mr. BELL. I thought we said we'd take every step to accelerate shipment of gold.

Mr. WHITE. Yes; but there's one phrase that's missing in that, and that is you continue our present—

H. M., JR. Look, Harry, using your own language, you have told me repeatedly we're skating on very thin ice. You told me that the other day.

Mr. WHITE. That's right because we don't have anything down in writing and there are reasons why we don't. We don't have to go into the history of it. It wasn't any oversight. When those things developed—

H. M., JR. We did it because we don't believe it would be helpful to them.

Mr. WHITE. It was going down the drain. We'll assume that that was the political situation at that time. Now at this time, you're bringing it to the attention of a new President that they are using this money badly from an economic point of view. Your decision can be overridden but it seems to me important that you make that record and that decision now, because the last few statements are simply to the effect that it's being badly used from an economic point of view. If he can say it, it may be very well, but politically they have to have it—you say okay.

H. M., JR. I say, as I informed you yesterday, the Treasury will consider statements to accelerate gold shipments to China.

Mr. WHITE. That's all right, but that doesn't mean giving two hundred million dollars. We've given them twenty-four million in three years—we'll give them three million a month.

H. M., JR. And here you people—in this memo you say that he was—here you practically say I won't give them any gold.

Mr. WHITE. There was one phrase that was left off on this.

Mr. BELL. "(b)."

Mr. WHITE. "(b)" should have said "and we will continue—" or "we will accelerate our present rate of shipments." But he wants two hundred million.

H. M., JR. China withdraws for the time being her request for immediate heavy shipment.

Mr. WHITE. That's two hundred million, the heavy shipment.

Mr. COE. Since they've started talking with us here, they have upped their demands rather than reverse.

Mr. WHITE. Could I be the devil's advocate?

H. M., JR. Hold on. Don't be the devil for a minute. Let me just get a report where this thing stands. What have you got and what are they asking for?

Mr. COE. They now ask for one hundred ninety million dollars worth of gold, in other words, the total remainder of the two hundred million. They want us to make commitments that we will deliver it to them in New York within the next eight months. They came in originally asking for sixty million to make up the arrears on what they owe. Dr. Soong, in your conference, made a proposal which I thought was limited to the next three months, but frankly I didn't understand it.

H. M., JR. He did say so.

Mr. COE. That's what I thought, but I didn't understand it.

H. M., JR. Well the next three months—

Mr. COE. I haven't seen it.

H. M., JR. I said for the balance of the year, and he said, "I'd rather make it for the next three months, say." I had said, "Starting when," and he said, "Since the last shipment." I think it was May 5, if my memory is right.

Mr. BELL. His records went up to May 5.

H. M., JR. He said from May 5 it would be three months.

Mr. COE. That's right, but the manager of the bank came in and delivered a memo signed by Soong in which they asked for a definite schedule for the entire balance of the gold.

H. M., JR. Let me just make a little speech before Mr. Harry White becomes the devil or the devil's advocate. Here is the situation, the way I see it. I think that the Treasury, up to this time, has been correct. And I certainly am part and parcel of this policy of slowing down the shipment of gold just as much as we could, because it wasn't good for them, and looking forward to the day they really need the money. And it's there. If they get it now, we'll have to give them more later on, so we're giving it twice. Now we ask advice all over this town. Other departments are involved, and they all tell us to sit tight and thumb our noses at the Chinese. I find out they will most likely get four thousand trucks, but they're not going to get anything that they really need to help them in the way of fighting, that is, cotton goods, or whatever they have to have. So far the Administration has taken any position. Now, wholly on my own and irrespective of Clayton, I'm trying to see what the target is. As I said last night in my impromptu speech, we have two targets. One is we have to first defeat Japan, and the other target is to liberate China. That's the target as I see it. Now, I feel that from information I've got, and so forth and so on, that the Chinese are beginning to fight now. That seems to be fairly well substantiated, and there's a determination to fight, and if we can get these people to fight and put in several million men, that means saving lives, many lives, and it's a very inexpensive investment; and just because the other parts of the Administration fall down—I don't think Clayton was advised. I think he and I had a bad night, and he decided that we ought to do something too. It's unfortunate John Carter Vincent wasn't here during that period, or White, because they both have the background, and Coe did the very best he could which was very good, with the assistance of Friedman and Adler. Now, I was going along with these fellows up to a point, and I suddenly made up my mind this was all wrong, and I'm just going to turn a somersault on this thing, and I want to do it; and, particularly when I see that my written word and the promise of Franklin Roosevelt is at stake. Now, I haven't got a leg to stand on. Never mind what I told the Congress. Never mind what I say they told me. They get very vague about it, but unfortunately we have nothing in writing. But there is my written word you can have two hundred million dollars worth of gold. Then, for some reason or other, Kung was very dumb on this thing. He didn't force it. We always thought he would. You couldn't understand why he didn't.

Mr. WHITE. That's right.

H. M., Jr. And this fellow is smart. He comes along and first thing he says is: "Mr. Morgenthau, what are you going to do about it? Is your written word good or not?" And the only answer is "it is." Now, even though I didn't have my written word—that influences me greatly, having given that, and he has gone over and told that to President Truman—as between governments, I don't think we have a leg to stand on. Even if the Chinese weren't fighting with a letter over my signature that they could have this, I think I'd be inclined to say it's yours. Now, I'm through.

Mr. COE. Would you let us——

H. M., Jr. Now White can have a chance.

Mr. COE. Harry, I wonder if you'd let us read to the Secretary what I'm not sure you have read, though we've referred to it several times—the kind of publicity there is out there on this.

Mr. WHITE. He assumes it's bad.

H. M., Jr. You told me they had in their House or Parliament there, they've had criticism, etc.

Mr. COE. Yes, but——

H. M., Jr. Let's say it's scandalous.

Mr. COE. It is.

H. M., Jr. All right. It's scandalous.

Mr. WHITE. Mr. Secretary, the way I feel about it is this. The Congress turned over five hundred million dollars for the Secretary or the President to use under such terms as they saw fit, for the purpose of combating inflation and stabilizing the economy. In other words, you had a responsibility.

H. M., Jr. That isn't written in the bill.

Mr. WHITE. Oh, it's a——

Mr. D. W. BELL. It's a loan.

Mr. WHITE. Have you a copy of it?

Mr. COE. The bill says on such terms and conditions as the Secretary of the Treasury, with the approval of the President, finds it to be in the national interest of the United States.

Mr. WHITE. And further discussion amplifies that.

Mr. BELL. That's quite different from fighting inflation and economy.

Mr. COE. The legislative——

H. M., Jr. And, may I just interrupt you. I made the statement, and this time I'm positive of it. When I appeared before the Committee, I said, "Gentlemen, in recommending this loan, I want to tell you you should assume we'll never get it back."

Mr. WHITE. That's right. That's a separate matter. That's quite true.

H. M. Jr. What does it say? What's the purpose of the loan? Let's get this thing straight.

Mr. WHITE. You want to get it. Do you have the file with the subsequent contract with the Chinese?

Mr. FRIEDMAN. I'll look for it, Mr. White.

Mr. WHITE. Have you got it there?

Mr. FRIEDMAN. It should be here.

Mr. COE. We've got this part in which you assured the House Committee——

Mr. WHITE. No, he wants to read the bill. The assurance you can give him later. Why don't you get the regular bill?

Mr. FRIEDMAN. Excuse me.

(Mr. Friedman leaves conference temporarily.)

Mr. WHITE. Dropping that for a moment until he comes back, Mr. Secretary, it's entirely true. You wrote that letter, and I think there's a way of wriggling out. The wriggling out is justified on the grounds that they are not using this money wisely, and what you're saying, in your responsibility to assume that they are going to use this money well, is that they are not using these funds effectively, and that was the supposed purpose of the grant. Now then, if there are, as you indicate, political reasons or military reasons why you want to give Chiang Kai-shek two hundred million dollars in gold, even if he throws it in the ocean or wants to give it to his friends, I say that should not be your decision in the record. That should be something for the President to say, or the Secretary of State, or the military people, to say that you have an obligation to hold a check on that expenditure so long as it isn't wisely spent, and you ought to tell the President this isn't being wisely spent, isn't doing any economic good. I don't think it's getting them to fight either, but that's a separate problem.

H. M., JR. Let me say this. I don't like this memo. I won't have any part of it. I'm prepared to say to him, when I see the President of the United States, that we have given this money, we are lending this money to the Chinese, and I think it's going down a rat hole, but I want a copy of my letter to take with me, this letter where I say they could have it. Have you got that?

Mr. COE. Yes.

H. M., JR. Be sure to let me have that tomorrow. I would tell him that on such and such a date, I said that; and if you could give it to me based on what President Roosevelt said somewhere else—if we know what he said, Frank.

Mr. COE. Yes, I'm getting it.

H. M., JR. "Here's the situation, Mr. President, based on my commitment."

Mr. WHITE. Which was also made for political reasons at that time.

H. M., JR. All right. "Now, I think it's money down the rat hole, but here's the situation, and from what I gather around, I'm willing to let them have it provided you know what the circumstances are." And I'll go further. I'm going to recommend to him that we do let him have it.

Mr. WHITE. I think where we part company is on two things, one, that it would seem to me that the mere fact of having written a two hundred million dollar letter should not commit you to a policy of the rate of speed, because you're going to give it to the Chinese Government. It's not like you were trying to withhold it from the Government. The question is to use it most effectively, and I think you should very definitely state in writing that this money is not being used wisely but badly, but that if you think for political reasons they should have it—

(Mr. Friedman and Mr. Adler enter conference)

H. M., JR. I'm going to ask Dan. I'm willing to take the sole responsibility to do this thing with the President verbally.

Mr. WHITE. It isn't a question of your responsibility versus ours.

H. M., JR. No, no, you misunderstood me. My responsibility versus him. I'm not worried, and I'm not going to bother other than to get Will Clayton to say in front of the teletype that—

Mr. WHITE. If somebody was to see what there is in writing, the agreements, and we have your letter, I think he could make an excellent case that you did not do a good job with five hundred million dollars. Now, what I'm saying is I don't know why you should take the responsibility for making a decision that China needs, Chiang Kai-shek needs the two hundred million dollars, or he won't fight. We don't know if that's true.

H. M., JR. I don't know, but Will Clayton begged me to do this.

Mr. WHITE. Let him beg you in writing. Our business is tremendous, and we've got a very clear case. The money is being badly used. It was badly used against our advice and the money is being squandered. He's buying up political support which has very little to do with the fighting, on the contrary. I say probably that is not any of our affair.

H. M., JR. The thing I'm objecting to is this memo to the President. Maybe I can get out of Will Clayton a letter from him and the Secretary of War saying "for political or military necessity, let this gold go."

Mr. WHITE. If you say at the same time that on economic grounds, it's not justified.

H. M., JR. I'll say that verbally. I don't have to say it in writing. If they write me a letter saying, "For political and military reasons we advise this gold go out," that's good enough for me. We're fighting a war.

Mr. WHITE. Well, of course, you made an assumption which has put us on very weak ground. You assume the two hundred million dollars they're getting is going to make Chiang Kai-shek fight, and they are fighting, both of which I question.

H. M., JR. I think you're wrong. I don't know. How long since you've been there, Adler?

Mr. ADLER. I left Chungking on April 7, sir, a little over four weeks ago.

H. M., JR. Do you feel they're fighting now?

Mr. ADLER. Very little. You take these stories about Foochow. Everybody in Chungking knew the Japanese occupied it with two hundred men last year.

H. M., JR. I can't. You'll have to get together with General Wedemeyer of the Army, and—

Mr. BELL. You got pretty good reports the other day when you went over there.

Mr. ADLER. There may have been a change in the situation in the last month, but as of the time of my departure—

H. M., JR. . . . from Admiral King and Forrestal.

Mr. WHITE. I don't think you can go behind that. That's their decision. I agree with you there, but let them say so in writing, and your responsibility must be that they are not using the money wisely from an economic point of view. That makes a perfect set-up.

H. M., JR. Now look, Frank, so we get this thing all together for the President. You keep all of these things for me, will you, Frank?

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EXHIBIT No. 350

[Vol. 847, pp. 144-145]

DEPARTMENT OF STATE,  
Washington, May 16, 1945.

The Honorable HENRY MORGENTHAU, Jr.,  
*Secretary of the Treasury.*

MY DEAR Mr. SECRETARY: The Department has given careful attention to the request of the Chinese Foreign Minister, Dr. T. V. Soong, for the delivery during the remainder of 1945 of about \$190,000,000 of gold from the unused balance of the \$500,000,000 credit approved by the Congress in January 1942.

It is the Department's view, which it understands is shared by the Treasury, that the sale of gold by China has not proved and is not likely to prove a very effective anti-inflationary device. Moreover, it believes that the establishment of a \$500,000,000 fund for combating inflation and stabilizing the Chinese currency which you proposed last week to Dr. Soong would, if adopted by the Chinese Government, be of considerable short and long run benefit to China.

The Chinese Government believes, however, that the immediate political and psychological as well as real economic effects of a continued and accelerated gold sale policy will have a vital importance in the critical situation confronting it, and strongly requests the delivery of the gold in question in accordance with the terms of the understanding between the two governments of July 1943. Since there appears to be no doubt that the Chinese Government attaches a greater importance to the immediate delivery of the gold than to the longer run benefits which might result from the establishment of the fund which you have proposed and since the continued stability of China and her increasing military efforts in the war against the common enemy are of great concern to the United States, the Department recommends that the Treasury, if transportation is available, deliver the gold to China in accordance with the time schedules put forward by Dr. Soong.

Sincerely yours,

JOSEPH C. GREW,  
*Acting Secretary.*

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EXHIBIT No. 351

[Vol. 847, pp. 146-153]

MAY 16, 1945.

The PRESIDENT,  
*The White House.*

MY DEAR Mr. PRESIDENT: In view of our conversation this morning in regard to China, I would like to submit to you three letters for your records: (1) A letter from Mr. Grew to me; (2) A copy of a letter from me to Mr. Soong; and (3) A copy of a letter from me to General Carter.

Sincerely yours,

(Signed) H. MORGENTHAU, JR.

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Major General A. H. CARTER,  
*Army Service Forces, Fiscal Director,  
War Department, Arlington, Virginia.*

MAY 16, 1945.

DEAR GENERAL CARTER: As you know, the Treasury through the services provided by the War Department has from time to time shipped gold to Assam, India, for the account of the Government of China.

The Secretary of the Treasury, after consultation with President Truman, has agreed to transfer \$180 million of gold to China's earmarked gold account

in New York for shipment to China during the next eight months. Moreover, we have agreed with the Chinese to ship during the same period an additional \$9 million of gold already held by them on earmark with the Federal Reserve Bank of New York.

It will be necessary therefore for me to make requests from time to time for the shipment by air or by sea of the total amount of about \$189 million of gold during the next eight months according to the attached schedule. It will be noted that 300,000 ounces are to be shipped by air during the month of May in addition to 700,000 ounces by boat during the same month.

Sincerely yours,

(Signed) H. MORGENTHAU, Jr.

*Schedule for shipment of gold*

Date	Monthly allocations for shipment	Per thousand means of shipment		Equivalent in United States currency
		By air	By boat	
	<i>Ounces</i>	<i>Ounces</i>	<i>Ounces</i>	
1945—May.....	1,000,000	300	700	\$35,000,000
June.....	1,000,000	500	500	35,000,000
July.....	800,000	300	500	28,000,000
August.....	600,000	200	400	21,000,000
September.....	500,000	200	300	17,500,000
October.....	500,000	300	200	17,500,000
November.....	500,000	300	200	17,500,000
December.....	300,000	100	200	10,500,000
1946—January.....	206,400	106.4	100	7,224,000
	5,406,400	2,306.4	3,100	189,224,000

MAY 16, 1945.

Dr. T. V. SOONG,

*Foreign Minister of the Republic of China.*

*Washington, D. C.*

DEAR DR. SOONG: This is to confirm what I told you today. In accordance with your memorandum of May 11, the Treasury is prepared to authorize the shipment of the balance of the \$20 million of gold which is on earmark with the Federal Reserve Bank of New York for the Central Bank of China and to transfer the balance of \$180 million to the account of the Central Bank of China with the Federal Reserve Bank of New York, in three equal monthly installments of \$60 million from May to July 1945. The Treasury accepts the schedule of gold shipments contained in your memorandum of May 11, 1945, and is making arrangements with the Army to carry out the shipments of the gold according to that schedule. The preliminary arrangements to ship the requested amount for the month of May have already been made. These steps are being taken in accordance with our Financial Aid Agreement of March 1942 and my letter to Dr. Kung of July 27, 1943.

At this time it seems to me necessary and desirable to point out that the purpose of the \$500 million of financial aid to China, and particularly my agreement in July 1943 to ship gold to China, was to assist in an anti-inflationary program which would strengthen confidence in the Chinese Government and its finances and thereby help maintain the Chinese economy. As you know, it is my opinion that the sale of gold by China has not proved effective in combating inflation, and I am doubtful that it will prove effective. Also as I have told you, the manner in which the gold sales have been conducted and the consequent public criticism of them in China are not conducive to achieving the purposes for which our financial aid was granted.

Therefore, I would respectfully ask the Chinese Government to consider carefully the matters proposed to you in my memorandum of May 8, 1945. In particular I would reiterate my suggestion that China constitute a \$500 million fund for combating inflation and stabilizing the currency from its foreign exchange assets. I think that this step would be of considerable short- and long-run benefit to China and would inspire confidence in the Chinese Government's handling of its difficult economic situation.

The Treasury has noted with great interest the intention of the Chinese Government, as stated in your memorandum to the Secretary of State, to effectuate

reforms relating to financial and economic matters. We think that the carrying out of these reforms will do more to insure confidence among the people and give a measure of stability to the present economic and financial situation than the gold program.

I know that you and your Government will take these friendly suggestions in the spirit in which they are offered. As I told you, we intend to carry out faithfully our financial agreement of 1942. However, the Chinese Government's response to our proposal to institute a \$500 million fund and her conduct of the gold sales program will be important considerations in our financial relations with China.

This Government has as prime objectives the defeat of Japan and the liberation of China. As an old friend of China, I believe that our faith and confidence in China will be justified.

Very truly yours,

(Signed) HENRY MORGENTHAU, Jr.

MAY 16, 1945.

Honorable LEO T. CROWLEY,

*Administrator, Foreign Economic Administration, Washington, D. C.*

MY DEAR MR. CROWLEY: For your information, I am sending you herewith copy of a letter from Mr. Grew to me, and copies of letters which I have written to Mr. T. V. Soong and General Carter.

Sincerely yours,

(Signed) H. MORGENTHAU, Jr.

MAY 16, 1945.

Honorable ROBERT P. PATTERSON,

*Under Secretary of War, War Department, Washington, D. C.*

MY DEAR MR. PATTERSON: For your information, I am sending you herewith copy of a letter from Mr. Grew to me, and copies of letters which I have written to Mr. T. V. Soong and General Carter.

Sincerely yours,

(Signed) H. MORGENTHAU, Jr.

MAY 16, 1945.

Honorable JOSEPH C. GREW,

*Acting Secretary of State, State Department, Washington, D. C.*

MY DEAR MR. GREW: For your records, I am sending you herewith copies of letters which I have written to Mr. T. V. Soong and General Carter.

Sincerely yours,

(Signed) H. MORGENTHAU, Jr.

EXHIBIT No. 352

[Vol. 808, pp. 196-201]

January 9, 1945, 2:50 p. m.

Rate for Formosa.

Loan to Russia.

Present: Mr. D. W. Bell

Mr. Luxford

Mr. DuBois

Mr. Glasser

Mrs. Gold

Mrs. Klotz

H. M. JR. I tell you what I am going to do. I haven't time to assimilate this, I have been putting it off. Have you done the basic work on this?

Mrs. GOLD. Some of it.

H. M. JR. And you? Who else?

Mr. GLASSER. I was only involved once, but Luxford and DuBois played a part in it last spring, almost a year ago.

H. M. JR. Are they in on this? Maybe I ought to say what are they not in on. Maybe we ought to ask them to come in.

H. M., JR. I don't get this business.

Mrs. KLOTZ. Did you say something to me?

H. M., JR. I said that I have to argue about this a little bit. I can't do this thing in split seconds.

(Mr. Luxford enters the conference.)

H. M., JR. From now on when I hold conferences I am going to say, "Let's include Luxford and DuBois unless they don't want in on it." Were you in on this summary of suggestions for the provision of ten billion dollars to be loaned to USSR?

Mr. LUXFORD. That is right.

H. M., JR. How much?

Mr. LUXFORD. I have worked along with it.

H. M., JR. Recently?

Mr. LUXFORD. Recently. I revised it before Harry had it.

M. H., JR. Is this a memo for Harry?

Mr. GLASSER. That is one we just did. I don't know whether you were in on this.

(Hands Mr. Luxford Memo on "Can't the USSR Service A Ten Billion Dollar Loan?")

That is the longer one Harry did.

Mr. LUXFORD. No, this is a memo to the President.

H. M., JR. No.

Mr. GLASSER. This is the memo. (Hands Luxford memo to the President on "Ten Billion Dollar Credit to the USSR.")

Mr. LUXFORD. But I revised that, and he has it on his desk now, a revision of it.

H. M., JR. The point is, chances are it may come up tomorrow morning.

(Mr. DuBois enters the conference.)

H. M., JR. Are you (DuBois) working on the long-term loan to Russia?

Mr. DuBois. Yes.

H. M., JR. How much—

Mr. LUXFORD. All of us worked together for a long while.

Mr. DuBois. Previously I worked for some time on it.

Mr. LUXFORD. This has been revised.

H. M., JR. You may change your mind so you are not in on this. I will hit this tonight at eight-thirty.

Are you all right?

Mr. GLASSER. All right.

H. M., JR. Supposing we do it. If I can concentrate on this thing for an hour, I can really get it into my blood stream.

Mr. LUXFORD. Right.

H. M., JR. I am pretty busy tomorrow morning. I am afraid—

Mr. LUXFORD. The only thing I put in the last memo to the President on this which you might want to consider was that while we should carry on negotiations now with the USSR, probably the matter should not be raised before Congress until after we get Bretton Woods through, but the only significant point added—

H. M., JR. He should have something he can take with him on his trip just the way he did on the London thing. The English—did you work on that?

Mrs. GOLD. Yes.

H. M., JR. You did?

Mr. GLASSER. Yes, I did some.

H. M., JR. Anybody else?

Mr. GLASSER. No.

Mr. LUXFORD. Casaday came in.

H. M., JR. He is not here now.

Mr. GLASSER. Yes.

H. M., JR. What is he on, Russia, now? He was on English.

Is eight-thirty a good or bad time? If the four of you wouldn't mind, I would only keep you an hour. But I have just got to get this thing in.

Mr. LUXFORD. Here, or at your home?

H. M., JR. Yes: at home. Who else is in on the rate for Japan?

Mr. GLASSER. Luxford has done a little on that, but Mr. Bell, Harry and I—

H. M., JR. All right. Are you in on that?

Mrs. GOLD. No, Mr. Secretary.

H. M., JR. Are you in on it?

Mr. DuBois. No.

Mr. LUXFORD. If you want me in on it—Glasser knows we are in agreement on any views on it.

H. M., JR. I will see the four of you. Please do your best to have it condensed and simple, not something for now, but something the President can have. For instance, when Churchill started to talk about Lend-Lease, Professor Lindeman handed him a memo which I saw, giving him all the arguments. He had that in his lap, you see, to read. Write something that the President could have if he wants to bring it up, or if Stalin brings it up, in that kind of form.

Mr. LUXFORD. We had added to the end of Harry's suggestion just to work out with Stettinius a statement. If you wish, Stettinius and you can work this out further, the thought being the memo will ultimately get to him, anyway, and it is better to have the window dressing in there.

H. M., JR. That is unimportant. I talked to Stettinius this afternoon, and he said, "I will see the President, and I am going to bring it up, especially—" I can't say now—he had a good reason, a favorable reason.

Mr. LUXFORD. I am sure.

H. M., JR. I will see you then.

(Mr. D. W. Bell enters the conference.)

H. M., JR. You had better tell her how to get to the house; will you?

Mr. GLASSER. Yes, sir.

(Mr. Luxford, Mr. DuBois, Mrs. Gold leave conference.)

H. M., JR. This is on your letter.

Mr. BELL. On me?

H. M., JR. Your letter of January 6 to Mr. Grew on the ten-cent rate for Formosa, which means nothing in my young life. I will flip a coin with you.

Mr. BELL. Well, that is about the way most of us feel about it, I think, except that the technical boys felt on economic grounds that the ten-cent rate was not justified over at the conference Saturday morning. Over at the conference in Mr. Grew's office on Saturday Harry took the position that you had taken previously, that if the State Department wanted to set a ten-cent rate on political grounds and assume the responsibility, that would be all right with the Treasury. Harold feels that this is a military rate, whatever you call it; whether it is economic or political, it is still a military rate, and that letter is all right. It does put the responsibility right back on the State Department, and I think that is in line with the policy you set with Germany. Wasn't it Germany? Yes.

Mr. GLASSER. It is along the line we took in Italy, too.

Mr. BELL. They accepted our rate in Italy.

Mr. GLASSER. That is true.

Mr. BELL. We fixed the rate in Italy, and in France we had a little—when we insisted on seventy-five, State wanted fifty, but we set it at seventy-five, and then the President came along and said he would like to separate it.



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SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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HEARINGS

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTH -FOURTH CONGRESS

SECOND SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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AUGUST 29 AND OCTOBER 7, 1956

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PART 36

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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

WEDNESDAY, AUGUST 29, 1956

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION  
OF THE INTERNAL SECURITY ACT AND OTHER  
INTERNAL SECURITY LAWS, OF THE  
COMMITTEE ON THE JUDICIARY,  
*New York, N. Y.*

The staff met, pursuant to notice, at 2 o'clock p. m., in the United States Court House, Foley Square, New York, N. Y., Robert Morris (chief counsel) presiding.

Present: Mr. Morris, Dr. Edna R. Fluegel, and Nelson Frank.

Mr. MORRIS. Ambassador Ward, will you give your name and address to the reporter?

## STATEMENT OF ANGUS WARD, FORMER AMBASSADOR TO AFGHANISTAN

Mr. WARD. Angus Ward, domiciled in Michigan, residing in Spain.

Mr. MORRIS. And are you a Foreign Service officer?

Mr. WARD. I was until recently, when I completed a bit more than 31 years of service, and resigned.

Mr. MORRIS. Ambassador, I would like to show you an official biography of Angus Ward, and I would like to ask you to look at that and tell us generally if that is an accurate statement of your career.

Mr. WARD. Yes, it is.

Mr. MORRIS. All right. I am offering that for the record at this time.

(The document referred to was marked "Exhibit No. 353" and reads as follows:)

[Source: Register of the Department of State, 1955]

*Ward, Angus.*—b. Canada, July 19, 1893; naturalized; Valparaiso U. 1913-14; lumber engineer and salesman 1909-17; U. S. Army 1917-19, 1st Lt.; with Am. Relief Admin. in Finland and Russia 1919-20; shipping and export business 1920-23; timber valuation engineer, Bu. of Internal Revenue, 1923-25; app. FSO unclass. Mar. 20, 1925; v. c. of career and v. c. at Mukden Sept. 2, 1925; at Tientsin Oct. 14, 1926; FSO-8, cons., and cons. at Tientsin Dec. 19, 1929; at Moscow Feb. 10, 1934; sec. in Diplo. Ser. Mar. 9, 1934; FSO-7 July 1, 1934; 2d sec. at Moscow in addition to duties as cons. Feb. 6, 1935; FSO-6 Apr. 1, 1936; FSO-5 Jan. 3, 1938; FSO-4 Mar. 1, 1940; 1st sec. at Moscow in addition to duties as cons. Apr. 26, 1940; cons. at Vladivostok Nov. 28, 1940; cons. gen. Oct. 29, 1941; cons. gen. at Vladivostok Oct. 31, 1941; FSO-3 June 1, 1942; to Dept. Apr. 21, 1944; couns. of emb. at Tehran Jan. 5, 1945; FSO-2 May 16, 1945; cons. gen. at Mukden July 9, 1946; FSO-2 Nov. 13, 1946; FSO-1 May 23, 1950; cons. gen. at Nairobi Sept. 1, 1950; superior ser. award Oct. 18, 50; A. E. and P. to Afghanistan June 27, 52; m.

Mr. MORRIS. Now, what was your last assignment?

Mr. WARD. My last assignment was Ambassador to Afghanistan.

Mr. MORRIS. How long did you serve in that capacity?

Mr. WARD. Almost 4 years.

Mr. MORRIS. And I wonder if you would tell us your assignment prior to that.

Mr. WARD. My assignment prior to that was at Nairobi, British East Africa; before that, going back to Teheran—in short, out of my about 31 years of service, 28 were spent in the Soviet Union or around the periphery of the Soviet Union.

Mr. MORRIS. Now, if I may, Ambassador Ward, I would like to ask you for the details of your specific assignments from 1939 to date, because that covers the area that the Internal Security Subcommittee is now interested in.

Prior to Nairobi, what was your assignment?

Mr. WARD. My assignment was Mukden.

Mr. MORRIS. Mukden?

Mr. WARD. Mukden, Manchuria.

Mr. MORRIS. And prior to that?

Mr. WARD. Prior to that, Teheran, Iran.

Mr. MORRIS. And prior to that?

Mr. WARD. In Vladivostok.

Mr. MORRIS. When did your service in Vladivostok commence?

Mr. WARD. In early January of 1941.

Mr. MORRIS. And it lasted for how long?

Mr. WARD. Until October 1944.

Mr. MORRIS. So you were there during the Japanese attack at Pearl Harbor, were you not?

Mr. WARD. Yes.

Mr. MORRIS. And what was your official title?

Mr. WARD. Consul general.

Mr. MORRIS. I wonder if you would tell us, Ambassador, of your observations during that period of Soviet activities affecting the United States, or possible Soviet activities which may have been inimical to the United States during that period, roughly.

Mr. WARD. Of course, during that period we had great movement of American goods into the Soviet Union across the Pacific. You may recall at the time of the attack on Finland, shipments were stopped.

Mr. MORRIS. To the Soviet Union?

Mr. WARD. To the Soviet Union, and then they were renewed and they went on and, of course, along then in June of 1941 came the German attack on the Soviet Union, when American shipments were further increased, and that went on until Pearl Harbor, when all American ships and bottoms, which we had leased from neutral shipping, ceased coming to Vladivostok and then the transpacific trade was in Soviet bottoms, after Pearl Harbor.

Mr. MORRIS. And you were able to observe, were you not, American aid in great quantities being shipped in the Soviet Union?

Mr. WARD. Staggering quantities.

Mr. MORRIS. Now, what was the method of transporting that material?

Mr. WARD. After delivery?

Mr. MORRIS. You said it came in either American bottoms or, later on, in Soviet bottoms after Pearl Harbor.

After it was shipped into Vladivostock, how was it transported to the heart of the Soviet Union?

Mr. WARD. A small bit was again loaded into Soviet bottoms, to Petropavlovsk, up near Alaska.

The overwhelming bulk went by rail westward to western Siberia and European areas of the Soviet Union.

Mr. MORRIS. What railroad was employed for that?

Mr. WARD. The Trans-Siberian Railway, at that time the only railway connecting western Siberia with the Soviet Far East. Since then, it has been paralleled by another.

Mr. MORRIS. What was the terminus of that railroad?

Mr. WARD. Vladivostock.

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. Now, you were there, were you not, Ambassador, at Vladivostock during the Nazi attack on the Soviet Union——

Mr. WARD. Correct.

Mr. MORRIS (continuing). And the Japanese attack at Pearl Harbor.

You were there also at the time of the Yalta Declaration?

Mr. WARD. Yes.

Mr. MORRIS. Which I believe was February 2, 1945.

Mr. WARD. Yes.

Mr. MORRIS. When did you first learn of the——

Mr. WARD. No; I left there in October 1944. The Yalta Declaration came during that winter of 1944-45, I think.

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. Then you——

Mr. WARD. I left Vladivostock in October 1944.

Mr. MORRIS. When did you first learn of the Yalta agreements?

Mr. WARD. I was in the United States, on my way to Teheran, at that time.

Mr. MORRIS. Now, were you able to form any conclusions based on your long experience in the Far East, particularly your experience which you have just related about Vladivostock, with respect to the Soviet agreement made at Yalta, with respect to the Far East?

Mr. WARD. As I recall, the one thing that was of outstanding interest to me was the cession of the railway, Manchurian Railway, to the Russians; also the cession of the Kurile Islands to the Soviet Union.

Those were two very far-reaching agreements insofar as the Far East was concerned.

Mr. MORRIS. Now, were you able at any time, either prior to this date of the Yalta Declaration or any time subsequent, to observe firsthand the operations of the Manchurian Railroad?

Mr. WARD. Yes. All the time I was in Manchuria, the Manchurian Railway, the old north and south Manchurian railways were being operated by the Russians. Also, the Russians—one other thing was the occupation and use of the port of Dairen, the Russians had taken over the port of Dairen, Port Arthur, to almost complete exclusion of the Chinese Government.

Mr. MORRIS. What did the terms of the Yalta agreement provide with respect to that railway?

Mr. WARD. Roughly, that it would be operated by the Soviet Union.

Mr. MORRIS. Wasn't the Chinese Government to have some kind of rights with respect to the railway?

Mr. WARD. Yes; they were, but those rights were certainly not observed in great evidence. The Chinese were quite crowded aside.

Mr. MORRIS. In other words, the Soviet Union did not even observe the terms of the agreement, except as they were favorable to the Soviet Union?

Mr. WARD. So the Chinese constantly maintained.

Mr. MORRIS. During that period of time, did you have an opportunity to know anything about the Japanese Kwantung army?

Mr. WARD. The Kwantung army was no longer in existence when I arrived in Manchuria.

Mr. MORRIS. During the period you were in Vladivostok?

Mr. WARD. No; there was no communication back and forth across the frontier. When in Manchuria, earlier in 1925, 1926, then, of course, the army was a very important Japanese factor.

Mr. MORRIS. Was there any intelligence emanating from American sources with respect to the strength of the Kwantung army that you might have been conversant with?

Mr. WARD. Nothing that came across to me at Vladivostok. That frontier was closed very tightly.

Mr. MORRIS. After you finished your tour of duty in Vladivostok you returned to the United States, did you not?

Mr. WARD. Correct.

Mr. MORRIS. During that period, did you spend any time with the State Department in Washington?

Mr. WARD. Yes. I was in the State Department for consultation, I don't recall exactly, but it was a number of weeks, several weeks.

Mr. MORRIS. Were you able to observe at that time the thinking of any officials of the State Department? In asking you about officials, I ask you about people who were division heads or heads of desks, or anything like that, with respect to our China policy at that time.

Mr. WARD. Yes. In fact, I had one of the shocks of my life at that time. I was in the State Department, discussing basically Chinese affairs, and we got off onto general Soviet-American affairs, inasmuch as I had just come out of the Soviet Union, and I was asked what, in my mind, were the Soviet war aims.

Mr. MORRIS. This time is now the end of 1944, possibly early 1945?

Mr. WARD. More likely January of 1945.

And at that time, of course, like everybody else, I had my ideas. My opinion of that at that time, from indications within the Soviet Union and from the tendency of Moscow to follow expansionist ideals that went back long before the revolution, was that the Soviet Union in Europe would not be content with anything short of a line approximately running from the Baltic to the Adriatic. And whereupon—

Mr. MORRIS. You expressed that view to a State Department official?

Mr. WARD. Yes.

Mr. MORRIS. Who shall be nameless for the purposes of this testimony.

Mr. WARD. So I prefer.

Mr. MORRIS. Now, what did he say to you upon your expressing that view?

Mr. WARD. Well, he expressed his amazement, in fact he said he was astounded that I could so speak of one of our allies and that, in so speaking, I was a disloyal American.

Mr. MORRIS. What did you do when he made that statement?

Mr. WARD. I picked up my hat and left his room.

Mr. MORRIS. Were there any other high-level State Department officials whom you saw during this period?

Mr. WARD. I saw some, but I have no recollection of any statements in my January 1945 visits around the Department of State.

Mr. MORRIS. All right. Now, what was your next assignment?

Mr. WARD. The next assignment was Tehran.

Mr. MORRIS. When did you leave for Tehran?

Mr. WARD. Early in March, as I recall, or maybe late February.

Mr. MORRIS. How long did you stay there?

Mr. WARD. I stayed there until December 10 of 1946.

Mr. MORRIS. Now, what position did you have there?

Mr. WARD. I was Counselor of Embassy.

Mr. MORRIS. Now, were any of the experiences you acquired there related to the general area of the Soviet conquest of Asia, that is, the subject of this present testimony?

Mr. WARD. Well, we probably all recall that the world was a bit nervous at that time whether the Soviet troops would evacuate Tehran. You may recall we had a Soviet puppet regime at Azerbaijan. We had this puppet regime there, no indication that it was going to be terminated at all. We had the Soviet troops in North Persia, northern Iran. The Americans and the British troops immediately took steps upon the end of the war in Europe to evacuate, but the Soviet troops made no gesture toward moving.

And it was quite a delayed operation. They eventually did evacuate and eventually the Shah of Iran seized the power in Azerbaijan and evicted the Soviet puppet regime, and it was again part of the overall expansionist imperialistic picture that we had become acquainted with in old Russia and the present-day Soviet Union.

Mr. MORRIS. Now, in connection with the general area did anything occur in that period that you think would be relevant to this inquiry?

Mr. WARD. Certainly their failure to evacuate their troops was further evidence of constant Soviet absence of bona fide intent to observe agreements.

Mr. MORRIS. Now, did you return to the United States after that assignment?

Mr. WARD. No, I went directly to Mukden, Manchuria.

Mr. MORRIS. What was your assignment?

Mr. WARD. I was there as a consul general.

Mr. MORRIS. When did you arrive in Mukden?

Mr. WARD. Mid-March, as I recall, mid-March of 1947.

Mr. MORRIS. I wonder if you would tell us what the state of the Soviet conquest of Manchuria and China was at that time? What was the alinement of forces between the Chinese Nationalists and the Chinese Communists at that particular time?

Mr. WARD. Well, the Chinese Communists were just beginning to gather strength, because, throughout many years, there had been the Communist movement in China, but it was hampered a great deal because of lack of equipment and lack of munitions. When the Russians came in and overwhelmed the wandering Kwantung Army, the Red Chinese Army, as it was known in those days, fell heir to the tremendous quantities of military supplies—munitions and so forth.

Mr. MORRIS. When you say, Ambassador Ward, "They fell heir to", could you tell us whether there was any positive or affirmative action on the part of the Red Army to turn these weapons over to the Chinese Communists or was it a passive thing, as your use of these words might indicate?

Mr. WARD. That was the point I was next going to bring up. When the Red Army troops withdrew, instead of withdrawing in an orderly planned withdrawal, the withdrawal was made so that, in every instance, the first Chinese military body to gain access to the point being evacuated was the Chinese Communist Army. The Chinese Communists naturally seized all this equipment, ordnance, munitions and so forth. It was rather cleverly done.

The Chinese Nationalist Army got nothing or next to nothing in consequence of this Soviet withdrawal.

And that put new life blood into the Chinese Communist Army because for the first time in several decades of its existence, it had the beginning of modern striking power.

Mr. MORRIS. Now, the Chinese Communist forces had been driven north by the Nationalist forces?

Mr. WARD. That is right.

Mr. MORRIS. And during the time you experienced these activities which you have described, the Chinese Communist armies were regrouping, were they not, and arming themselves?

Mr. WARD. That's right. They were in occupation of northern Manchuria, whereas the Nationalists were in more or less occupation of southern Manchuria, but not much there, other than the railway corridor to Peking in the southwest and Changchun in the north.

Mr. MORRIS. Will you give us as much evidentiary detail as you possibly can about that general activity on the part of the Soviets to turn over equipment to the Chinese Communists?

Mr. WARD. Of course, I was not there when it transpired. I came afterward when the Communists already had this equipment and they had moved out from the mulecart stage into the motorcar stage of operations.

Mr. MORRIS. How did you learn about these activities which you told us about?

Mr. WARD. Well, we had an American consulate general in Mukden since late in 1945, as I recall. I also had a consulate in Changchun. We had another military intelligence group, the external survey detachment, and we had been very well acquainted with what had gone on in Manchuria.

Mr. MORRIS. In other words, all these representatives of the United States military and the State Department were making constant reports which went through you in your capacity at that time?

Mr. WARD. That's correct.

Mr. MORRIS. Now, did you see these Chinese Communist forces, mechanized forces, which you have described?

Mr. WARD. Well, naturally we saw none around Mukden. I saw none until the Chinese Communists took over. You will probably recall that Mukden fell under siege in October of 1947, was surrounded then, railway communications with Peking were cut and north to Changchun were cut. Railway communications had been cut before to Dairen because the Communists were there, and also the Soviet authorities; but Mukden then became completely isolated and it stayed that way until the collapse of the Nationalist troops in Manchuria late September, early October, of 1948.

When Mukden fell on October 1, 1948, I saw my first Chinese Communists' mechanized units.

Mr. MORRIS. That's when they came into the city which they had just captured?

Mr. WARD. That's right.

Mr. MORRIS. Now, what happened after the Chinese Communist military forces took possession of the city?

Mr. WARD. Well, it was a very orderly takeover. There was little or no fighting, just some pockets of resistance in the town which went on for a week or so. The Chinese Nationalists did some retaliatory aerial bombing of the city, but in general it could be classified, I believe, as a quite orderly takeover.

The Chinese Communists were very lenient in their administration of public order, tolerating many things which—after all, a military turnover always brings out certain lawless elements. They were dealt with very lightly, not at all as some of the ways other lawless elements were dealt with some months later.

They organized the railway, of course, immediately, for their drives down into north China. The next big drive was down through the Great Wall on to Tientsin, Peking, eventually Shanghai, and right through the south of the country.

Mr. MORRIS. Now, how were you and the members of the Embassy treated at that time?

Mr. WARD. We in the consulate general were more or less ignored for the first few days. We did establish contact with the Chinese Communist officials for the purpose of letting them know that we did have an American community, which was small—just the American official community. And it went on that way until about the middle of the month, when I was informed that I would have to surrender the United States Government radio station that we were operating at Mukden.

Mr. MORRIS. Was that operated from the consulate?

Mr. WARD. Yes, it was in the compound of the consulate general. I was called down to the senior military official, told this. I informed him it was United States property; it was not mine. They could, if they wished, take it; but I would not surrender it for the reason I had no authority to surrender United States Government property.

Several days later, a large group came to the consulate general in the morning, seized the radio station. I had stopped operation of the radio station when I received the first notice, because we were subject to local law to a certain extent.

They came, took over the radio station and other equipment, radio equipment, that we had, and thereupon put me and all of my staff and all of the dependents of myself and my staff under arrest, and we were

kept under office or house arrest for—until December of 1949, 14 months, a bit more, just about 14 months.

Mr. MORRIS. Now, in addition to house arrest, was there any further effort on the part of the Chinese Communists to imprison you?

Mr. WARD. Yes. In June of 1949, one Sunday when I was under arrest at the office, I casually turned on Radio Australia, and I heard that the Chinese Communists had unearthed a spy ring in Mukden. My stomach went way down at the time, because then I knew something was going to happen.

I asked immediately for permission to get out my staff, sent down to Tientsin or Peking those present who were not essential. It was refused. The State Department was aware at that time—I had received a communication; I don't recall how the communication came through, but I had received a communication from the State Department, and we were required to remain on there.

Later on again, October, as I recall, four members of my staff and myself were arrested and put into prison.

Mr. MORRIS. Now, to get back, Ambassador Ward, to the period, the 14-month period, when you were under house detention.

What was the justification for that action on the part of the Chinese Communists?

Mr. WARD. The Chinese Communists weren't prone to give us explanations of anything. At the time they seized the radio station, they stated that, until further instructions were received, we would be under arrest.

Mr. MORRIS. And the house detention was really a form of arrest at that time?

Mr. WARD. Yes, sir.

Mr. MORRIS. Could you, Ambassador Ward, have left the area at the time? Left Mukden, at the time?

Mr. WARD. That is a hypothetical matter. I don't know, because I did not try.

Mr. MORRIS. You had no instructions to leave?

Mr. WARD. I had no instructions. I did not know what Washington might have been doing, once it learned of our arrest there. And I preferred to let things go on as they were rather than start to do something which would upset anything that Washington might have been doing.

Mr. MORRIS. At the end of the 14-month period, you described a more drastic action.

Mr. WARD. That was at the end of the year, when came the imprisonment, being held in prison, and the trial, or sentence, which was commuted to expulsion from China.

Mr. MORRIS. I wonder if you could tell us, in as full detail as possible, all the circumstances from the time of your arrest and incarceration to the time of your expulsion. It is important for the purposes of this inquiry, and if you would give us as many details as you can, it would be very much appreciated at this time.

Mr. WARD. One thing, after I heard on the Australia radio in June of 1949 that a spy ring had been unearthed, I knew something was going to happen. It was following the pattern of so many things that are manipulated by the Soviet Union or which follow the inspiration of the Soviet pattern.

They follow a definite pattern, so I knew we were headed for trouble. And I did—since we had no espionage activities, only the usual reporting activities which all of our consulates perform wherever they may be in the world—and I assume all foreign consulates in our country do; that's one of the functions of having foreign officials.

Mr. MORRIS. They were known to be at that time your formally performed duties. You made no effort to conceal that; did you?

Mr. WARD. Made no effort at all, because it would have been hypocrisy to have done that, because consulates throughout the world do have functions to perform.

Mr. MORRIS. And they are presumed to be performing them at all times?

Mr. WARD. Definitely, but I did my utmost to impress upon my staff that since we were not engaged in espionage, the one thing for us to do if anything untoward happened was to tell the truth and only the truth. And that paid off, if I may use that expression, very generously later on, because after we were arrested, those of us who were put in prison—

Mr. MORRIS. Would you tell us who were put in prison?

Mr. WARD. There was an American, Ralph Refberg; an American of Japanese extraction, Albert Statsumi; an Italian, now residing in the United States, Franco Cicogna; and a German, Alfred Cristan, now on duty with the American Government in Singapore.

Mr. MORRIS. You say "a German." Is he now an American?

Mr. WARD. So far as I know, he is an alien employee of the United States Government.

Mr. MORRIS. I see.

Mr. WARD. We were taken, lodged in a prison near the railway station, held there for perhaps a week to 10 days and then moved to another prison quite close to the consulate general, and there we were held until the trial took place and our sentences were commuted to expulsion, and we were permitted to return to house arrest.

Mr. MORRIS. How long were you incarcerated, for how long?

Mr. WARD. As I recall, it was 2 months, maybe a bit less than 2 months.

Mr. MORRIS. Would you tell us the conditions that prevailed in the prison while you were so incarcerated?

Mr. WARD. At first, we were held quite incommunicado, we were not able to communicate among ourselves at all. So I don't know, only by hearsay, of the experiences of the others.

For myself, I was not—we were not abused, at least I was not abused, although we, all of us, did have a very extensive questioning, sometimes going on for hours and hours and hours, very trying.

Also, the quarters were unheated. We were already in winter, and our quarters were unheated, and none of us had anticipated this happenstance, so we were much too lightly dressed. I myself walked about 14 hours a day, if I had that much time and wasn't called up for interrogation, to keep myself warm.

We were given 6 slices of bread and 6 cups of hot water each a day.

Mr. MORRIS. That was your entire fare?

Mr. WARD. Yes. I lost 70 pounds.

Mr. MORRIS. You say you lost 70 pounds?

Mr. WARD. Yes.

Mr. MORRIS. In the period of less than 2 months?

Mr. WARD. Yes. But the others were treated very much the same. In fact, I was treated a little bit better, because I found that if I whistled, nobody bothered me if I whistled; whereas my boys were not permitted to whistle, sing, or do anything—if I may mention off the record—

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. May I ask you to repeat that for the record?

Mr. WARD. With the one exception being Refberg, who has a phenomenal memory and a very extensive knowledge of poetry, and who confounded the Chinese by reciting poetry for hours on end.

But, if I may mention, we were all questioned, we were all questioned relentlessly. One of my lads, Cicogna, fell ill, and I saw him being carried along a corridor to interrogation when he was no longer able to stand, but nevertheless they did question him. And he came the closest, perhaps, to all of us, of breaking.

One of the chaps, Cristan, froze a foot.

Mr. MORRIS. What was the nature of the questioning?

Mr. WARD. The nature? What we were doing, what we were there for, and that they knew—that they knew of our activities. And, of course, the charge that I was—under which I was held, I never did see any formal charges. I was never presented a warrant or any statement of formal charges, but I was told in prison, because of having beaten up one of the Chinese employees.

Mr. MORRIS. Was there any truth whatever to that?

Mr. WARD. No.

And then it went back to this question, we would go off one way, and then get off to something or other, and come back to different points, and kept coming back to the same question in multitudinous forms, in an effort to break down what we had said previously.

As a matter of fact, I may mention that that is a point of very great pride with me, that we have had these Communist trials of foreigners in every Communist country from 1917, and that my group of lads were the only ones who thus far, to the utmost of my knowledge, never confessed or issued a statement, as they were pressured to do.

Mr. MORRIS. Well, Ambassador, I wonder if you would tell us about the subsequent trial that terminated this period.

Mr. WARD. I had asked, of course, it was inevitable, because the pattern of the things was inevitable. Once arrested, the only way the Communists could, with any grace, save their face, would be to have a trial and find us guilty.

So, immediately upon my arrest, I requested access to counsel. That was refused.

Finally, one day, without—they were preliminary; these preliminary interrogations, and so forth, went on and on and on—and finally, one morning, without any previous knowledge, insofar as I now recall, we were told to prepare to go over to court for our trial.

Mr. MORRIS. Were you apprised at any time of the charges, of the reason for your trial?

Mr. WARD. A lengthy document was read to us in Chinese. I don't recall, I believe, however, that a summary translation of it was given to us.

Anyhow, I asked to have a copy of this document and/or to have a full translation, that is what I wanted, a full translation. And I was told later on that would be given to me.

As far as I was concerned, or my lads with me, it was just a lot of mumble-jumble that we couldn't make sense of. We didn't know what we were being tried for, or anything else.

My entire Chinese office staff were presented by the prosecution as state witnesses. I was unable to summon any witness in our behalf.

As I mentioned before, I was unable to have access to legal counsel, and this trial went on throughout a whole day; it lasted a whole day. I was not permitted to interrogate any of the state witnesses when they made false statements, which I wanted to have cleared up as far as the record was concerned. I was very curtly told in every instance that the court would determine what evidence would be questioned, if any evidence was to be questioned. This went on throughout the whole day.

Mr. MORRIS. This is all in the Chinese language?

Mr. WARD. All in the Chinese language, yes.

Mr. MORRIS. Were all the so-called defendants conversant with the Chinese language?

Mr. WARD. No.

Mr. MORRIS. And the so-called defendants didn't even know what was going on?

Mr. WARD. That is right.

Mr. MORRIS. Were you given interpreters?

Mr. WARD. We had a very, very poor interpreter furnished by the court. At times the court—we would ask—a statement would be made which would not be understood clearly, we would ask for an interpretation of it by the interpreter, and the court would refuse.

Mr. MORRIS. Refuse even to interpret?

Mr. WARD. Yes.

So along about 6 o'clock that evening, the court adjourned, and some 50 minutes or about an hour later, the court reconvened, and I may mention that for almost all of that time there was no light in the whole court area, the electric lights had gone off. But when the court reconvened, there was a great big 14-page document, as I now recall, very nicely typed up, of the findings of the court.

It always puzzled me, in the first place, how the court managed such a document in an hour, and, in the second place, how they did it in the dark, and how the judge had it in his pocket in the morning.

We were all found guilty, sentenced to various terms of imprisonment. Thereafter the court, however, commuted the imprisonment to expulsion.

Mr. MORRIS. All of you?

Mr. WARD. All of us.

Mr. MORRIS. How much later after the sentencing did the commutation take place?

Mr. WARD. The same day. The same evening, because along about 11 o'clock we were told that a vehicle would come from the consulate general and that we were to return to our homes, where we were again under house arrest.

Mr. MORRIS. Now, Ambassador, were the circumstances of all these indignities which you have testified to, were they known generally throughout Mukden, to your knowledge?

Mr. WARD. Yes, yes. We found out, not at that time, but afterward, it was quite well known. And in fact, some persons going by the consulate general would see us at the windows, or maybe exercising on the roof—it was the only place we had to exercise—they would wave a hand, do something like that, and if they were seen by the police, they were arrested and marched off.

Mr. MORRIS. Have you been able to draw any conclusion about the purpose of the Chinese Communists in subjecting you and your subordinates to the atrocities and indignities you have described?

Mr. WARD. Well, of course, I can answer the question later on, but I think to state the purpose, I believe a great deal issued from their failure to have an appreciation of international conduct. You just don't use foreign representatives for demonstration purposes, as we were used, the demonstration being that our arrest and imprisonment afforded the Chinese Communist Government an opportunity to show that for the first time in many, many years they had a government which dared flaunt the United States or any foreign power. For the first time, we may say, there had been acts of violence, intentional acts of violence, against foreign officials since the days of the Boxer Rebellion at the turn of the century.

Mr. MORRIS. You think that was calculated?

Mr. WARD. I believe so; I believe so because someone must have known international practices; they were not completely ignorant of international practices. But nevertheless, doing what they did, they gained a tremendous internal propaganda.

Mr. MORRIS. The abuses that were visited upon you and your staff were widely circulated, were they not?

Mr. WARD. Yes. By word of mouth. We have in China what is known as the bamboo telegraph. It is as effective as any wire telegraph anywhere in the world.

Mr. MORRIS. You say the circulation of news of these circumstances was extensive. Do you imply that in connection with the last stated purpose of your testimony?

Mr. WARD. Just gossiping, just the operation of the bamboo telegraph, word passing from one person to another. It was not, I have no recollection—yes, only after we were put in prison did it appear in the press. The first year nothing appeared in the press so far as I am aware at this moment.

Mr. MORRIS. You seem to imply in your testimony now that the Chinese Communists did that to impress upon the people the fact that they were able to stand up to a white-man government.

Mr. WARD. Yes.

Mr. MORRIS. I wonder if you could develop that for us, Ambassador?

Mr. WARD. Well, I don't see how it can be developed much, except that I must first state, it is an assumption, no Chinese has ever told me that that is what it was, but it was just using good political sense, looking at this through Chinese Communist glasses.

Mr. MORRIS. Now, while you were in Mukden during house arrest and during this period of incarceration, did you come to learn that there were any Soviet officials or Soviet officers, and by that I mean, Russians, in Mukden?

Mr. WARD. Yes, sir. Prior to the occupation of Mukden by the Chinese People's Army, there had been a trade delegation accredited

to the Nationalist authorities, and those, plus a few railway employees, were the only Soviet citizens that we ever saw or heard of.

After the fall of Mukden and its occupation by the Chinese People's Army, several hundred Soviet nationals appeared to our knowledge, as we could see from the office of our own consulate general. They were working out at the airfield, at different factories that were initially operated by the Japanese, but were now operating after the collapse of the Japanese Army. Railway shops, iron mines, steel works.

The Soviet technicians and advisers came in in large numbers. What others may have come in, that I can't answer, because you can't tell what a person is by looking at his overcoat when he walks by.

Mr. MORRIS. Do you know whether or not any Korean troops were used by the Communists in laying siege to Mukden?

Mr. WARD. Korean troops were used. However, we must—when we say that Korean troops were used, we must bear in mind that there are a good many Koreans or there were a good many Koreans residing in Manchuria. We had intelligence satisfactory to us to the effect that there were Korean Koreans in the military units with the Chinese People's Army in addition to the Manchurian Koreans in the military units.

Mr. MORRIS. Now, Ambassador, when did the Soviet Army, the Red army, occupy North Korea?

Mr. WARD. That was right after, at the time of V-J Day.

Mr. MORRIS. And they occupied it right down—

Mr. WARD. To the 38th—

Mr. MORRIS. Thirty-eighth degree latitude?

Mr. WARD. Yes.

Mr. MORRIS. And during that period, the Red army trained the Korean divisions, did they not?

Mr. WARD. That is right.

Mr. MORRIS. Now, did your intelligence report, or did you come to know that these troops, these Soviet-trained troops took part in the conquest of Mukden?

Mr. WARD. I don't know the origin of the troops other than we learned that there were Korean Korean troops. Now, whether they had been trained by the Japanese or by the Russians, I assume they were trained by the Russians.

Mr. MORRIS. You use the words "Korean Koreans," and you mean the Korean—

Mr. WARD. Residents of Korea, as distinct from those residents in Manchuria.

Mr. MORRIS. Now, what efforts were made by the State Department? I think you told us that, during the 14 months of your house arrest, you had no instructions whatever from the State Department.

Mr. WARD. I had something along just about the time of this thing that I heard on the Australian radio. Whether it was a telegram that came up or a letter that came up from our consulate general at Tientsin or Peking, my memory is not too clear at the moment. But there was something stating to make an effort to get out nonessential personnel.

MORRIS. Now, what did the State Department do on your behalf, on behalf of your subordinates, to relieve you of this difficulty that was being pressed upon you?

Mr. WARD. That question I can't answer, other than on the basis of hearsay, because we didn't know.

I learned to my own satisfaction, however, that our arrest in Mukden, because of the bamboo telegraph, was known in Washington, a quite reasonably short period after it had happened.

Mr. MORRIS. Did the State Department make any effort, to your knowledge, to bring about your release?

Mr. WARD. Nothing that I saw or felt, but I don't know, because that would have happened outside.

Mr. MORRIS. To what do you attribute, Ambassador Ward, your release from Chinese Communist activities?

Mr. WARD. Well, I have always felt, and still feel, that were it not for the Honorable William C. Bullitt, and Mr. Roy Howard, that I would not be here today.

Mr. MORRIS. Roy Howard is the publisher of the Scripps-Howard publications?

Mr. WARD. Yes, sir.

Mr. MORRIS. I wonder if you would tell us what effort they made on your behalf?

Mr. WARD. When Mr. Bullitt learned of this mischance that had fallen our lot—and that was late in 1949—he became very active and mobilized the press to the utmost of his ability and approached Roy Howard in the matter, and others, and immediately made this known to the American public.

That was probably October or November of 1949, but I was not here at that time, of course.

Mr. MORRIS. To your knowledge, was there any congressional support for your travail?

Mr. WARD. Yes. Once this knowledge became public property in the country, as I recall, one congressman volunteered to stand in my stead, if I would be released—Mr. Fulton, from Pittsburgh. And I have been told there was great interest in both the Senate and the House of Representatives.

Mr. MORRIS. Well, Ambassador, was there a British consulate general in Mukden at the time?

Mr. WARD. Yes.

Mr. MORRIS. What happened to that?

Mr. WARD. Nothing. They took over our property when we were finally expelled. That was our——

Mr. MORRIS. The British?

Mr. WARD. The British did.

My one and only contact after our October 1948 arrest to our December 1949 expulsion was just on the night we were leaving Mukden, the British proconsul came over and I was able to show him the physical United States Government property that we had to leave behind.

Mr. MORRIS. Now, did the Chinese Communists seize any United States State Department files or property, in general?

Mr. WARD. No. No; they did not. There was nothing to seize; we had destroyed our files when Mukden fell.

Mr. MORRIS. Well, Ambassador, did the British recognize Red China in December 1949?

Mr. WARD. Yes.

Mr. MORRIS. Do you know the exact date?

Mr. WARD. I can't even say it was in December of 1949. I know it was prior to our departure from Manchuria, but when——

Mr. MORRIS. Your departure was——

Mr. WARD. December of 1949.

Mr. MORRIS. The Internal Security Subcommittee has received evidence, some of it in the form of sworn testimony, that it was the policy of the United States Government in December of 1949 to make ready for recognition by the United States of the Red Chinese regime.

Could you discuss that in any way, Ambassador?

Mr. WARD. Again, all I knew of it was the hearsay that came to my ears after we were released, at which time I was told that had it not been for our arrest, there was every likelihood of recognition having gone through.

Mr. MORRIS. Off the record, just a minute.

(Discussion off the record.)

Mr. MORRIS. The Internal Security Subcommittee has received testimony from Brig. Gen. Louis Fortier, who was the intelligence officer for the United States Far Eastern Command, that he became concerned by the looming prospect of the Chinese Communists being able to consolidate militarily and posing a threat to the United States Command in the Far East, and he was afraid that recognition of the new People's Republic would give the Communists the moral and political support necessary for the consolidation of this position.

He has testified under oath that on January 6, 1950, Philip Jessup, who was our roving Ambassador at the time, told him in Japan that the United States would recognize Red China in a period of about 2 or 3 weeks.

Now, do you know, could you add anything from your own experience as to that testimony which, incidentally, Mr. Jessup has denied?

Mr. WARD. The information I received—and then again it was just chit-chat, not an official statement at all—which I had received in Japan was to the effect that our arrest and later imprisonment and all of that had destroyed the chances.

I was in Japan just before Christmas. So it preceded this statement.

But when I came back home, I heard a great deal more, because we all recall how controversial the China problem was in late 1949, early 1950, and I was informed repeatedly in the United States, again by unofficial statement, that what had happened to us had destroyed and had been the one thing which had destroyed the likelihood or possibility of recognition of Red China; that had it not been for that, there would have been every likelihood that it would have gone through.

Mr. MORRIS. And eventually, admission to the United Nations?

Mr. WARD. Probably. And for that one thing, if what I had been told was true, that our experiences, did stop the Communist Chinese, stop our recognition of Red China, I have always felt that we were very, very well reimbursed for what we went through.

Mr. MORRIS. Well, Ambassador, you then returned to the United States?

Mr. WARD. Correct.

Mr. MORRIS. And you had a period of convalescence from your ordeal?

Mr. WARD. Yes.

Mr. MORRIS. And during that period, were you able to discuss your experiences in China, in Manchuria, and policy in general, with any high ranking State Department officials in Washington?

Mr. WARD. Yes, I was.

Let me see. Butterworth—W. W. Butterworth, I saw him. I saw the Secretary of State, Mr. Acheson, and the Under Secretary and a number of others whom I don't recall right at this moment.

Mr. MORRIS. Off the record a minute.

(Discussion off the record.)

Mr. MORRIS. Were there any others?

Mr. WARD. There were others, but I do not recall them.

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. Now, Ambassador, was this your first discussion with the State Department in Washington after the termination of your tour of duty in Vladivostok?

Mr. WARD. No. I had conversations with State Department officials in the winter of 1944-45, on my way from Vladivostok to Tehran.

Mr. MORRIS. Those you referred to previously?

Mr. WARD. Yes.

Mr. MORRIS. But subsequent, prior to the time you just told us?

Mr. WARD. Yes.

In January 1948, I was ordered back to the Department from Mukden on consultation. At that time I saw Secretary of State Marshall, Under Secretary Lovett, and a number of others.

May we go off the record?

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. Now, to the extent you are prepared at this time to tell us, Ambassador, will you tell us the content of those conversations, as much as possible?

Mr. WARD. I was displeased with one outstanding factor, and that was that there seemed to be a reluctance on the part of those officials with whom I spoke, under the level of Under Secretary of State, to have affairs of China discussed frankly.

In illustration of this, I may mention that I met the late Secretary of Defense Forrestal at a luncheon, and the following day he requested of the State Department that I call on him for the purpose of discussing affairs of China.

An appointment was set up for one afternoon at 2 o'clock. At about noonday, I was called into the office of one of our State Department officials—

Mr. MORRIS. A superior of yours?

Mr. WARD. Yes, yes. And I was informed that what Mr. Forrestal was interested in learning was the extent of the demoralization among the Chinese Nationalists, the extent of corruption, and matters of that kind.

I had had several talks with this official previously, and while we had mentioned these matters, my principal remarks to him were the exposition of my thoughts on the ways in which we could help the Nationalist Government of China to better its chances in the war against the Communists and thereby better its chances of survival.

Naturally, I was completely perplexed when I was informed that Secretary of Defense Forrestal was not at all interested in this phase of my previous remarks.

MR. MORRIS. Well, Ambassador, were you in effect either actually or impliedly being directed by your superior in the State Department to talk to Secretary Forrestal only about that aspect of your experience in China?

MR. WARD. That was my interpretation; that was the only interpretation I think could be given to it, that I was called to the office and given this message. At any event, I kept this appointment and because I could not send a message to him, Secretary Forrestal, saying I could not keep it just a few hours before the appointment, I saw the Secretary.

General, now President, Eisenhower was present, and I had to give a most unsatisfactory talk.

MR. MORRIS. Now, did you learn subsequently, Ambassador, that as a matter of fact Secretary Forrestal did not want to hear only about that particular aspect of your experiences in China?

MR. WARD. Correct.

A mutual friend told me afterward that he had wanted a continuation, or discussion of our luncheon discussion, which, in the light of the directive I received in the Department of State, I did not feel free to give.

MR. MORRIS. Off the record a minute.

(Discussion off the record.)

MR. MORRIS. Who was the mutual friend?

MR. WARD. The Honorable William C. Bullitt.

MR. MORRIS. Now, had you told Mr. Bullitt of your conversation, of your implied instructions from your superior in the State Department, and your subsequent conversation with Secretary Forrestal?

MR. WARD. I did not tell it to him in full, because I couldn't. But I recall that I was feeling so dispirited that evening, that when I saw Mr. Bullitt I told him that for the first time in my life I had prostituted myself.

MR. MORRIS. Because you didn't go above your instructions, the instructions of your senior, and come out with the whole story?

MR. WARD. If I wished to go against my instructions, it was my duty at that time to hand in my resignation and be a free agent.

MR. MORRIS. And what did Mr. Bullitt do when you told him that?

MR. WARD. He afterward saw Mr. Forrestal and learned of Mr. Forrestal that the interview was unsatisfactory as far as he was concerned, that what he had expected, as I mentioned previously, was a continuation of our luncheon conversation.

MR. MORRIS. And did he learn, as a matter of fact, that Secretary Forrestal did not want you to be limited in your conversation to those two aspects?

MR. WARD. I was given that impression, without the exact words, as I say, that he had considered it unsatisfactory and had wanted a frank discussion between us.

MR. MORRIS. Now, during this period, Ambassador, Congress—I think it was the 80th Congress—appropriated \$125 million to aid Nationalist China in its war with the Communist forces.

MR. WARD. Yes, that is true. I remember that came up in a conversation I had with the then Secretary of State, George Marshall.

In fact, the day of our conversation was the day or the date preceding that on which this line of credit went through. I remember at that time it was my argument that we should not just extend an open line of credit to China, that we should have controlled aid.

Mr. MORRIS. That is Free China?

Mr. WARD. Free China, Nationalist China, of course.

But we should exercise more control over our aid and its use within China than we had theretofore.

Mr. MORRIS. Now, are you—were you in favor of the \$125 million appropriation?

Mr. WARD. I was, provided we would just not write the equivalent of a blank check but use this in making certain that it would be used for its intended purpose, as far as the United States was concerned, and made effective, so that China could go on resisting the Communist armies.

I think, and I still think that had we adopted that line, or a line similar to it with the same effectiveness, that we could have had our Chinese friends on our side for a good many years after 1949, 1950, that they would not have fallen when they did.

Mr. MORRIS. Well, Ambassador, by the way, what was General Marshall's position in respect to this conversation?

Mr. WARD. General Marshall was largely silent throughout our conversation.

Mr. MORRIS. Now, Ambassador, did—

Mr. WARD. I may mention that this conversation did not grow out of the initiative of General Marshall, but I had had a conversation with Under Secretary of State Lovett, and he recommended to the general that I be given an opportunity to present my views on this to him, as Secretary of State.

Mr. MORRIS. Now, Ambassador, at the time and prior to the time of this appropriation on the part of Congress, there was an effective embargo imposed on the Chinese Nationalists by the United States, was there not?

Mr. WARD. Yes. I don't know whether it was an embargo, but aid was very, very slow in coming.

Mr. MORRIS. General Chenault has testified that the first military supplies appropriated by the 80th Congress did not arrive in northern China until most of the key battles were over. Do you know anything about that?

Mr. WARD. That's the information that I have received, or that I received at that time.

Mr. MORRIS. And do you have any knowledge that the blockade, or the embargo—the cutting off of the supplies of the Chinese—was a factor in their downfall?

Mr. WARD. I have every reason to believe that was a factor, a very potent factor.

Mr. MORRIS. Now, just—were there any other conversations in that 1948 period?

Mr. WARD. I recall one other conversation in which we were discussing the possibility of continued Chinese resistance.

Mr. MORRIS. This is now at what date, Ambassador?

Mr. WARD. That was during the period of my consultation, in January of 1948.

Mr. MORRIS. And with whom was this discussion that you now mention?

Mr. WARD. I prefer not to identify—

Mr. MORRIS. They were superiors of yours in the State Department, were they not?

Mr. WARD. Yes.

Mr. MORRIS. Will you tell us what happened?

Mr. WARD. There was one person, no longer in the Foreign Service, and therefore I feel free to mention his name—Mr. John Davies.

Mr. MORRIS. John Paton Davies?

Mr. WARD. John Paton Davies.

During the course of this conversation, I was arguing for immediate and effective aid to Nationalist China, but was put off by the statement of the senior member present to the effect that, even though China may be lost today, that is, today as of that time, it could be taken back at any time, within a very short period.

And he turned to John Paton Davies and said, "That's right, John, isn't it?" And Davies said, "Yes," which was very confusing to me as representing advanced thought in the State Department.

Mr. MORRIS. Now, were you consulted on the formulation of the so-called China White Paper at all?

Mr. WARD. No, never.

Mr. MORRIS. Even though you had the experience you have told us here today?

Mr. WARD. I was not consulted.

Mr. MORRIS. Now, Ambassador, may I get back to the period while you were in Washington, after your expulsion by the Reds from Mukden.

Now, have you told us all the conversations that you had with State Department officials during that period?

Mr. WARD. Insofar as I recall at this moment, yes, vis-a-vis China.

Mr. MORRIS. Now, Ambassador, there is, as you know, a forthcoming Assembly meeting of the United Nations, and one of the questions that is expected to come up there is the admission of Red China into the United Nations.

Almost as a corollary to that is a question that comes up from time to time in political discussions here, and which is a subject of interest to the Internal Security Subcommittee, and that is recognition of Red China by the United States.

Do you feel, on the basis of all your experiences which you have set forth in great detail here today, that the People's Government of China, as they call themselves, should be admitted to the United Nations?

Mr. WARD. I feel they should not.

Mr. MORRIS. Now, would you give us the basis of that conclusion which you have just expressed?

Mr. WARD. Well, basically, they have not conducted themselves, and are not conducting themselves today as an adult member of the international community.

Furthermore, it opens our country to the presence of their agents and others, which I do not like to see happen. We have enough inimical elements, perhaps, within our country today, without adding theirs.

Also, when I view the matter of recognition of Red China, I can only assume that, as things are today, pressure would immediately be brought to bear for the abandonment of Taiwan by the Chinese Nationalists, which I cannot admit is in our interest or in the interest of peace in the Far East, because from all I can learn, from all I know, it is one of our anchors in the defense of the western Pacific.

On the other hand, that element of my thinking perhaps pertains more to our own recognition of Red China, not so much to its admission to the United Nations.

MR. MORRIS. Do you think that admission to the United Nations would give the Red Chinese regime prestige that would aid it in consolidating its conquest of the mainland of Asia?

MR. WARD. Without a doubt.

MR. MORRIS. Do you think it would have any effect in causing resistance to further Chinese Communist expansion to deteriorate?

MR. WARD. I am firmly convinced that it would, that the Asiatic peoples would interpret that as international approval of the present Communist government in China as the legitimate successor of the Nationalist Government of China; and that it would simply be good and practical politics for all Asiatic states to do as they are prone to do anyway, to think of tomorrow much more than of today.

MR. MORRIS. Now, would it have any effect, in your opinion, again based on your extensive experiences in the Far East, on the so-called overseas Chinese?

MR. WARD. Without any doubt, in my mind, it would, because it would immediately persuade them that the Communist government of China had, as I mentioned a moment ago, arrived as a stable, legitimate member of the international community.

MR. MORRIS. And what would be the reaction of the overseas Chinese to that accomplished fact?

MR. WARD. Orientation toward Peiping.

MR. MORRIS. Now, are overseas Chinese an effective political and economic force all over the Far East, outside of China?

MR. WARD. Yes.

MR. MORRIS. Would you tell us something about that, Ambassador?

MR. WARD. Well, we only have to refer to the press of yesterday morning. As I recall, it mentioned that, in the Singapore area, over 50 percent of the people are overseas Chinese, oriented toward Peiping, that their very presence would immediately diminish the value of Singapore as a defense factor and the overseas Chinese are—I don't recall offhand the statistics—but in Thailand they are tremendous in numbers, vis-a-vis the Siamese, and throughout the whole of south-eastern Asia.

MR. MORRIS. Is that—does that condition prevail also in Indonesia?

MR. WARD. That I don't know. I have never been in Indonesia.

MR. MORRIS. Does that problem, to your knowledge, exist in the Philippine Islands?

MR. WARD. I don't feel myself competent to discuss that.

MR. MORRIS. In all your experience, were you able to observe anything about the economy of Manchuria and whether or not that factor is a strengthening or a debilitating force on Soviet power in the Far East?

MR. WARD. Yes. The economy of Manchuria, rather the healthful economy of Manchuria and access to that economy is a very vital factor

in the Soviet Far East, because the Soviet Far East, for food and many other raw materials, is a deficit area, which can be overcome in a very large measure by access to Manchurian resources—metals, grains, and, with Mongolia, meat.

Its—if the the Soviet Far East is to be strong, militarily, it must have access to Manchurian supplies, because otherwise—the railroad distance is tremendous; it is some 6,000 miles from Vladivostok to Moscow.

Mr. MORRIS. Well, Ambassador, as you know, your answers to the questions put to you today provide the last opportunity of the Internal Security Subcommittee to learn from you as a source the wealth of evidence that you possess on the general subject that is related to our present inquiry, inasmuch as you were about to leave the United States, for an unforeseeable time, in the immediate future—a few days hence. Is that correct?

Mr. WARD. Correct.

Mr. MORRIS. When are you sailing?

Mr. WARD. September 1.

Mr. MORRIS. I wonder if there is anything else you could tell us now for the record that the chairman of the Internal Security Subcommittee or other members thereof may put into the permanent record of the Internal Security Subcommittee that will aid Congress in either passing legislation or engaging in necessary legislative deliberations before terminating this session today?

Mr. WARD. No; I think we have covered a very broad field, much of which could have been discussed in more detail, but I believe we have touched on the high points.

Mr. MORRIS. Within the limitations we agreed upon.

Mr. WARD. Yes.

Mr. MORRIS. There is one point I think the record should be straight on. You mentioned at the time of the incarceration, the word “confessing.”

I wonder if you will explain fully what you meant by that. You stated—I notice that you did say you did enter a denial that there was any truth in the charges against you. You used the word “confessing” in what context?

Mr. WARD. Well, it is usual to work on arrested persons in the Communist prison system to a point where their opposition to fact disappears, and then they are ready to attest to anything which the interrogating authority may wish to have them attest—condemnation of their own activities, condemnation of their own government or condemnation of anything which may be wanted; it's part of it, it's the ultimate aim of the so-called brainwashing system.

Mr. MORRIS. And when you use the word “confess,” you use it in the Communist context and not in the sense that it is used here in the United States, as an admission of wrong actually performed?

Mr. WARD. Well, it is; how many persons have been arrested and brainwashed and have admitted acts that they never performed? I remember we had that way back in 1935 or 1936, where a German vice consul, or consul, out in Siberia confessed to acts which he had never performed, but with the brainwashing process, there came a time when he could not see or could not distinguish between reality and fantasy, fact and falsity.

Mr. MORRIS. Off the record.

(Discussion off the record.)

Mr. MORRIS. One other question I would like to ask:

Did the treatment accorded you by the Chinese Nationalist Government while you were consul general at Mukden, compare with the treatment accorded you by the Chinese Communists?

Mr. WARD. No. The treatment which I received throughout my two assignments in China under the Nationalist Government, and under its predecessor in 1925 and 1926 was perfectly correct. This treatment, however, which we received at the hands of the Chinese Communists was not in accordance with international comity and practice.

Mr. MORRIS. So this was not the manifestation of any Chinese attitude toward you, it was rather a Communist attitude toward you?

Mr. WARD. Definitely, it was not the attitude even of the people of Mukden, because when we would be marched back and forth between my house and the office, always under armed guard, it was not unusual for me to receive a little flutter of a hand, or something, from the Chinese standing along the road, showing that they were not part of it, and since I have been out of China, and from escapees and everything, I have learned there was no reflection of the attitude of the Chinese people; it was the attitude of the Communist government.

I am very fond—in fact, I can say that I love the Chinese people.

Mr. MORRIS. Well, Ambassador, on behalf of Senator Eastland, the chairman of the subcommittee, and the eight other Senators on the subcommittee, I want to express our appreciation of your going to great inconvenience in letting us have so many hours of your time in telling as much of your own story as you have, so that it might be put in the permanent record of the Internal Security Subcommittee.

I want to add my own personal thanks to that.

Mr. WARD. Thank you very much.

It has been a pleasure to be heard, and what I have done is no more than my duty as an American, looking toward the safeguarding of the best interests of our country.

Mr. MORRIS. Thank you, Ambassador.

Mr. WARD. Thank you.

(Whereupon, at 4 o'clock p. m., the staff meeting was adjourned.)

# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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OCTOBER 7, 1956

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION  
OF THE INTERNAL SECURITY ACT AND OTHER  
INTERNAL SECURITY LAWS, OF THE  
COMMITTEE ON THE JUDICIARY,  
*Sonoma, Calif.*

Staff conference.

Present: Robert Morris, chief counsel; and Adm. Charles Maynard Cooke, United States Navy, retired.

Mr. MORRIS. What is your name, sir?

Admiral COOKE. Charles Maynard Cooke, admiral, United States Navy, retired.

Mr. MORRIS. When did you retire, Admiral?

Admiral COOKE. I retired in May 1948.

Mr. MORRIS. Admiral Cooke, the United States Senate Internal Security Subcommittee has been, among other things, assessing the events of the last 10 years in order to determine to what extent subversive forces may have set in motion those happenings. As a corollary of this inquiry, the subcommittee observed that faulty intelligence as well as a disinclination on the part of certain Government officials have been contributing factors to the decline of the United States position in international affairs.

Admiral Cooke, you appeared before the subcommittee on October 19, 1951, and you related at that time your personal experiences and observations as they bore on the inquiry that the subcommittee was carrying on into the extent to which Communist forces were able to influence our foreign policy.

At this time, Admiral, we would like you to relate those experiences of yours which indicated that persons charged with the responsibility of shaping policy did not receive when it was available, or did not actively go forward to acquire intelligence that might have caused the outcome to have eventuated differently.

For instance, recently the Senate Internal Security Subcommittee was told by Ambassador Angus Ward that, after he returned from some of his firsthand encounters with the aggressions of the Chinese Communists, not only was he discouraged from telling his story to the policymakers by his superiors, but that, in at least one instance, deception was used to prevent him from imparting the necessary information to the Secretary of Defense.

Admiral, you are a graduate of the United States Military Academy, are you not, sir?

Admiral COOKE. Naval Academy.

Mr. MORRIS. Naval Academy?

Admiral COOKE. Yes, 1910.

Mr. MORRIS. And you were Chief of Staff to Adm. Ernest King, commander in chief of the United States Fleet during the war; were you not, sir?

Admiral COOKE. Yes. I was Chief of Staff during the latter part of the war, but chief strategical adviser practically during the entire war.

Mr. MORRIS. And in that capacity did you attend any of the international conferences?

Admiral COOKE. Yes. I attended all the international conferences held by the heads of the leading governments, beginning with Casablanca and ending with Potsdam.

Mr. MORRIS. Why don't you enumerate them? There are only 4 or 5, aren't there?

Admiral COOKE. Oh, no.

Mr. MORRIS. Well, go ahead and name them.

Admiral COOKE. There are about 8 of them, beginning with Casablanca, followed by Washington, 2 in Quebec, 1 in Cairo, 1 in Yalta and 1 at Potsdam. I think that's all.

Mr. MORRIS. And you attended those conferences as a strategic adviser to Admiral King; is that right, Admiral?

Admiral COOKE. That is correct.

Mr. MORRIS. Now, Admiral, during this period of time that you acted in that capacity, did you begin to be aware in your official military capacity of the looming threat of Soviet aggression?

Admiral COOKE. I became aware of the attitude and method of operations of Communists during the war and, with the approaching defeat of Japan and the buildup of the Russian Communist strength in Manchuria toward the end of the war, I recognized that a very serious situation would confront the United States due to the fact that Japan, completely defeated, would provide a vacuum for Russian aggression after the war was over, and about April 1945, a few months before the war was over, I gave Admiral King a memorandum setting forth this prospective situation in the Far East.

Mr. MORRIS. To your knowledge, Admiral, did the Army also make a report on this threat?

Admiral COOKE. Yes. I learned later that the Intelligence Division of the Army had submitted a similar report in June of 1945.

Mr. MORRIS. What was your first assignment after the war, Admiral?

Admiral COOKE. After the war I was assigned as commander of the United States 7th Fleet, then stationed in Chinese waters, and which came to include all of the United States combat forces in China during the period of 1946 to the fall of China to the Communists.

Mr. MORRIS. How long did you remain in command of the Seventh Fleet?

Admiral COOKE. I was in command from the 8th of January 1946 to the end of February 1948.

Mr. MORRIS. Now, Admiral, I wonder if you would briefly state for us at this time the forces that, from your experience, contributed to the Soviet conquest of China.

Admiral COOKE. First I would say the buildup of Russian Communist power in Manchuria and North Korea, as a result of the Yalta

agreements and of the entry of Russia into the war against Japan about 1 week before Japan's surrender.

Second, I would say that the failure of the Russians to carry out the treaty agreements made by Communist Russia and Nationalist China about the 6th of August 1945, which was in consummation of the agreement of the United States Government to undertake to cause the Chinese Nationalist Government to comply with the agreements made at Yalta. In these agreements of the treaty, the Russian Communists agreed to give all of their support to the Nationalist Government of China. But when the war was over, on August 14, and later, the Russians refused to permit the Chinese Nationalist forces to enter Manchuria through Manchurian ports to recover their sovereign territory.

This action provided a great help to the success of the Communist armies who were coming into Manchuria to be armed with Japanese and Russian equipment.

Third, even with this Russian Communist help, on 2 or 3 occasions the Chinese Communist movement was thwarted by the Nationalists, upon which occasions our representatives in China forced the Nationalists to agree to a truce.

Fourth, in August of 1946, because the Nationalists had not complied with all of the demands of the United States representatives in China who sought agreement between the Nationalist Government and the Chinese Communist armies in rebellion against the Chinese Government, the United States imposed a complete embargo against supplying ammunition and armed equipment to the Nationalist Army, even denying ammunition for the American guns that certain Chinese divisions had been equipped with to fight the Japanese.

Mr. MORRIS. How long did that embargo last, Admiral?

Admiral COOKE. Technically, the embargo lasted for about 10 months. Factually—

Mr. MORRIS. That was until when?

Admiral COOKE. Let's see. August, September—until about May 1947.

Factually it lasted much longer, because of the great delays that took place after the technical termination of the embargo. The effect of this embargo was set forth in an observation personally made to me by General Marshall in August or September of 1946: "That with the embargo we had in effect first armed the Chinese Nationalists and then disarmed them."

Fifth, the Russian Communists provided the Chinese Communists with operational advisers, organizers, thereby improving their fighting efficiency at the same time that the Nationalists were not receiving any such operational advisory assistance from the United States.

Sixth, the Nationalist armies had been fighting against Japan for 8 years and had suffered heavy casualties during the period that the Communist armies had not been engaged.

Seventh, I should add that due to the lack of operational advice, badly needed by all Chinese armies, there was inept leadership on the part of the Nationalist commands.

Mr. MORRIS. After your tour of duty as commander of the Seventh Fleet, did you retire from the Navy?

Admiral COOKE. Yes. I returned to the United States and passed to the retired list on the 1st of May 1948.

Mr. MORRIS. What did you do then?

Admiral COOKE. Then I returned to my home in Sonoma, Calif.  
Mr. MORRIS. What did you do when you first entered upon your retirement?

Admiral COOKE. I accepted speaking engagements in various parts of the United States, both in 1948 and 1949, and kept up my interest in the Far East situation, appearing in Washington on a number of occasions to talk to Members of Congress, both of the House of Representatives and the Senate, giving them such information as I had on the Far East. This kind of activity on my part was stepped up to a much higher degree after the Communist people's government was set up in Peking on October 1, 1949.

Mr. MORRIS. What did you do after October 1, 1949, Admiral?

Admiral COOKE. When the Communist government was set up in Peking, I knew that it was being done largely by the Soviet Communists. This was confirmed by the recognition of the Chinese Communist government by the U. S. S. R. 2 days later, on October 3, 1949.

I felt that this might likely lead to the recognition of Communist China by the United States Government, which in turn would lead to the loss of Formosa to the Communists. I considered that if we recognized Red China we would soon lose Formosa, and if we lost Formosa we would certainly recognize Red China, and that both or either were very serious disasters to United States security and world freedom.

I therefore went to Washington and spent about 2 months in the Washington area, working in large degree with Mr. William Pawley, ex-Ambassador to Brazil, in an effort to set up a group of ex-United States naval and military officers and retired officers to go to Formosa to assist the Nationalist Government in preventing the fall of Formosa to communism.

I made formal recommendations to the State Department and informal recommendations to the President himself, through his aide, that this be carried out, but I never received any action one way or the other on these recommendations; no red light, no green light.

Finally, about the 1st of December of 1949, I discontinued my efforts and returned to Sonoma, Calif.

Mr. MORRIS. How long did you remain in Sonoma, Calif.?

Admiral COOKE. On the 5th of January of 1950, when the President of the United States and the Secretary of State issued statements that the United States was not concerned with the fate of Formosa and that South Korea was also beyond the perimeter of United States strategic concern, I called up Mr. Pawley in Washington from California to express my view that this could be very disastrous to the United States, and every effort should be made to modify the Government's decision, and I proceeded that night to Washington and talked with a number of Senators, all of whom agreed, but none of them could do anything about it.

So I returned to my home in Sonoma, Calif.

Mr. MORRIS. Admiral Cooke, in either of these two visits to Washington that you just related, were there reports circulating that the Island of Formosa, containing as it did the Chinese Government, was about to fall?

Admiral COOKE. While I was in Washington, during the period of October and November of 1949, I saw reports, or copies of reports, which had been sent by the United States consul general in Taipei,

Formosa, stating in effect that Formosa would fall to the Communists within a period of 1 or 2 weeks from the date of the dispatch report. I knew that we did not at that time have any naval intelligence representatives in Formosa, and I felt that these reports were not well-founded. In fact, I was sure that they were not correct.

I did not at that time take any action to inquire into the reports, as I felt that they were probably of a confidential nature. But I felt the urge myself to get to Formosa somehow or another, in order to find out how correct or incorrect they really were.

Mr. MORRIS. Well, Admiral, were these reports, in your opinion, causing damage?

Admiral COOKE. Yes. I considered that they were causing a very serious adverse effect on the United States policy and action. I found that many of the people in the Government to whom I presented the idea that we should help the Formosa Nationalist Government hold onto Formosa against Communist attack were undoubtedly influenced by these reports of a debacle in Formosa that would be forthcoming in the very early future.

I did not immediately, at that time, know that our State Department was getting ready to warn all diplomatic personnel throughout the world to be ready to explain the fall of Formosa, a warning that was actually issued, as I remember it, just about the time of my departure from Washington on the 3d of December of 1949.

Mr. MORRIS. Did the warning itself have an adverse effect?

Admiral COOKE. Yes. I considered that it did in a very high degree. because the Nationalist Government, just having been driven off the mainland, was in somewhat of a precarious position in Formosa, with particular regard to its relationship with all the countries in the world, some of which would be ready to recognize Communist China without delay.

In other words, if this warning of the State Department was supported by certain things going badly in Formosa, there was a great chance that the recognition of Red China at this time might become fairly worldwide.

Mr. MORRIS. Did you go to Formosa and, if so, in what capacity?

Admiral COOKE. After going to Washington the 6th of January 1950, and not accomplishing very much to save the situation as I thought it needed to be saved, I felt the need to go to Formosa to see for myself the actual situation and, further, to see what I, at least, could do about helping hold this island.

I therefore arranged with the International News Service for an accreditation representing them in Formosa and obtained a passport for that purpose and proceeded to Formosa, leaving the United States on the 1st of February 1950, passing through Tokyo and Hong Kong, and arriving in Formosa on the 11th of February 1950.

Mr. MORRIS. When you arrived in Formosa, Admiral, did you find that we had adequate intelligence representation on the island?

Admiral COOKE. No, I did not. When I was passing through Tokyo, I talked to the commander of our Seventh Fleet, then in Yokosuka, who had the same intelligence about the situation in Formosa as I had seen in Washington, and from whom I learned that no naval intelligence representatives were in Formosa.

When I arrived in Formosa, I found that there were no intelligence representative's from MacArthur's staff, from the War Department,

from the Navy Department, or from the Central Intelligence Agency, then in Formosa. The only official intelligence representatives were the attachés, Army, Navy, Air Force, all of them, of course, under the State Department representative, Mr. Robert Strong, consul general, with the position of chargé d'affaires.

Mr. MORRIS. Admiral, if Navy Intelligence or General MacArthur's headquarters had wanted to send intelligence personnel to Formosa, could they have done so?

Admiral COOKE. So far as I know, they could not. About March of 1950, possibly in April, General Fortier, who was No. 2 in the G-2 organization of General MacArthur, desired to come to Formosa to learn at first hand what the real situation was. His request was turned down and later he made a trip to southeast Asia, and in particular to Indochina, and returned, taking passage on a plane that stopped at Taipei, Formosa, and he stopped over for a few days.

This action on his part was objected to, I was informed, by the United States consul general, Mr. Strong. I do not know, of course, all the details of what transpired between General Fortier and Mr. Strong, but I believe that General Fortier has appeared before your committee.

Mr. MORRIS. Admiral, after you arrived on Formosa, did you, in fact, find the situation to coincide with the situation reported by the consul general, the reports you had read in Washington and in Tokyo?

Admiral COOKE. No, they did not. Also I found in Formosa that a number of people were familiar with the reports that had been made. This put me in a position to refer to them because I found that they were no longer confidential. I did not find anything in Formosa which supported the reports made in October and November of 1949, setting forth, as they did, the imminence of the fall of Formosa to communism within a period of 2 or 3 weeks.

I also learned that, in December of 1949, the State Department representation in Formosa had warned all Americans to leave Formosa because of this imminent fall; that some had done so, but others had stayed on.

I also was informed that one of the assistant military attachés, Capt. J. R. Manning, had wished to report facts which did not fit in with the character of reports apparently desired by the State Department representation, and who therefore made a direct report to the War Department.

Further, I was informed that Captain Manning had been summarily detached from his duty as assistant military attaché and sent to the United States command in Tokyo.

Some weeks later, while in Tokyo, I looked up Captain Manning, and he confirmed the report about this incident that I had received while in Formosa.

Mr. MORRIS. That would appear, would it not, Admiral, to be an example of policy shaping intelligence reports, rather than policy following facts revealed by intelligence?

Admiral COOKE. I would rather put it this way: As it appeared to me, there was a policy that had been set up in Washington by the United States Government and which was being followed by the State Department representatives in Formosa, which required that intelligence facts should conform to the policy rather than have a change of policy that would be guided by the facts.

Mr. MORRIS. Admiral, were there more episodes and instances of which you learned while you were on Formosa that were being inadequately reported through our representatives there?

Admiral COOKE. Yes, there were. But, in order to give an adequate answer to your question, it is necessary that I relate what happened, first, with regard to the fall of Hainan to the Communists in April of 1950, and, second, of the Nationalist evacuation of the Chusan Archipelago in May of 1950.

When I returned from Tokyo in the middle of April 1950, I found that the Communists had landed in strength in Hainan. This landing in strength followed a number of guerrilla landings from the mainland on Hainan during the months of February and March. I was informed by President Chiang Kai-shek that it had been intended to evacuate Hainan in February, because it was 700 miles from Formosa, because the troops there were not too well trained and equipped and because no more troops, naval ships and aircraft could be spared to Hainan from the defense of the Chusan Archipelago and Formosa itself.

However, he went on to add that this evacuation had been delayed because the Nationalist forces were still fighting Communists in Sikang, a province to the west of Yunan, and the communications by air between Sikang and Formosa had to be routed through Hainan. I suggested to the president that it would be desirable to repel this Communist invasion if possible and afterward to evacuate it while not under pressure.

With this view, he agreed. I volunteered to go down to Hainan with his chiefs of staff and give them any advice that I could, and I did go down, accompanied by the commander in chief of the navy.

A few days after my arrival in Hainan, the Communist armies overthrew the Nationalist armies, and I flew back to Formosa. Admiral Kwei, commander in chief of the Chinese Navy, stayed in the Hainan area and succeeded in removing practically all of the Nationalist troops, preventing their capture by the Communists.

The representative of the Associated Press, also in Hainan at the time of its fall, and probably misled by certain of the generals who had failed in Hainan, reported in an AP release that President Chiang Kai-shek had himself engineered the debacle. This press release was of a character that would cause serious damage to the cause of the Nationalist Government and was, as I know, completely unfounded.

When I returned to Taipei, I asked all of the naval and military attachés to come to my place, in order that I could relate to them what had happened. I told them that whereas the performance of the Nationalist forces in Hainan was not creditable, it did not carry with it the venal aspects reported in the AP dispatch. The attachés accepted this report.

I also wrote a letter to the chief of naval operations, reporting what had taken place.

In addition to the above, I reported that I had questioned the Chinese, both on the ships and on the planes, about the ammunition that had been directed toward the ships and Nationalist aircraft from the mainland across the Ten-Mile Strait from Hainan and had reached the conviction that the Communists, probably including Russians as well as Chinese, were using proximity fuses in their ammunition.

Mr. MORRIS. What were proximity fuses, Admiral?

Admiral COOKE. A proximity fuse was developed very secretly by the United States in World War II and is sometimes called an "influence fuse," which causes the ammunition to be detonated without striking a material object, but merely passing near to it.

Mr. MORRIS. Of what significance was it to you, Admiral, that the Communists were using proximity fuses?

Admiral COOKE. This fuse, developed by the United States Navy in World War II, was at that time of such a secret character that our forces on land did not use it against the Germans because it was feared that the secret might be discovered by the recovery of unexploded ammunition.

Therefore, I reached the conviction that this was no longer a secret; that the Russians had probably had it for some time; that the Russians were supplying it to the Chinese Communist armies and that probably Russian personnel themselves were participating in the Liuchow Peninsula, just across the strait from Hainan, against the Nationalist ships and planes.

The information of the rather discreditable performance of the Nationalist forces in Hainan seemed to be received by the attachés with an acquiescing reception. However, a different reception was accorded to the reports that I furnished them after the evacuation of the Chusan Archipelago, which is about 350 miles north of Formosa, just off the Chinese Coast and near the port of Bankchow. The Nationalist Government regarded, properly in my opinion, the holding of Chusan as very important to their strategical security, because Chusan would flank any amphibious movement in strength mounted in the Yangtze River.

Therefore, they had a strong defensive force stationed in Chusan, of about 125,000 men. They had had an important battle in October of 1949, in which they had repelled further advance at that time of the Communist Armies against the rest of the archipelago.

But in April of 1950, photographs taken by Chinese Nationalist planes established the fact that Russian jet planes were flying from air fields around Shanghai. By this time the Communists had established 14 air fields in the Shanghai-Hankchow area, from which air strikes could be delivered against Nationalist forces in the Chusan area. The Nationalists had only one air field in Chusan.

Further, the Communists had between two and four hundred thousand troops in the same area, available for attack against Chusan. It was evident to me that, if the Chinese Communists and their Russian components decided to attack Chusan, they should be able to take it within a few days. Some of the Communist positions were only two miles away from the Nationalist positions. I felt that a strong possibility existed of such an attack taking place during the summer, June, July, or August. I felt that if such an attack took place, not only would Chusan be lost, but the Nationalist strength would be so depleted that Formosa itself probably could not be held. Remember that at this time, early May 1950, the United States Government disclaimed any interest in the fate of Formosa.

I therefore recommended that Chusan be evacuated before such an attack. The decision was made by President Chiang Kai-shek and his advisers on the 9th of May to evacuate, and the evacuation was completed by the 16th of May. All the forces and equipment of Chusan

were successfully removed and returned to Formosa without any casualties and without any Communist interference by air or otherwise. The evacuating forces had difficulties because of swift currents amongst the Chusan islands, and fog.

I, therefore, flew up to give assistance during the last 2 days, accompanying the Chinese naval commander, Admiral Kwei. I, therefore, was fully informed as to the plans of the operation and of the final steps in the completion of the evacuation. The secret of this move was so well kept that it did not become known to the Communists, nor to those in Formosa not concerned with carrying it out. It was therefore very much to my surprise when, about the 17th of May, I was informed that our attachés had the information that many Nationalist troops had been killed by Communist gunfire, many troops had been left behind, much equipment had been lost, and that a serious debacle had taken place.

It was also stated that the Island of Quemoy, or Kinmen as called by the Chinese, had been evacuated and that the Pescadores Islands had been ordered evacuated. The garrison of Kinmen Island at that time was from 60,000 to 70,000 men.

The attachés and others associated with them in United States Government circles had also stated that Formosa would fall in June and not later than July, that is, within less than 2 months. These assertions of fact and of views first transpired in a secret meeting and were transmitted to me by someone who had learned of them. I immediately asked the attachés to join me at my headquarters. I informed them that I had been in the Chusan area on the last 2 days of the evacuation; that no debacle had taken place; that the Communists were not aware that the evacuation was taking place; that no troops and no equipment had been left behind and that all troops were being returned to Formosa.

I further informed them that Kinmen had not been evacuated and was not being evacuated, and, further, that there was no intention to evacuate the Pescadores. To this the attachés replied that their information and their informants were of a character that they were sure that they were right and that I was wrong.

In spite of all of my assurances that I had personally witnessed what had taken place in Chusan and that they would find that Kinmen had not been evacuated, they insisted on retaining their own view and so reported, I gather, to Washington.

Mr. MORRIS. Admiral, were all of the attachés under the direction of Mr. Robert Strong?

Admiral COOKE. Yes.

Mr. MORRIS. Is he still in the State Department?

Admiral COOKE. After his being relieved in August of 1950, he proceeded to the State Department and I heard that he was in the State Department in 1952. Since then I do not know.

Mr. MORRIS. Admiral, had you finished that last episode when I interrupted?

Admiral COOKE. No, I had not finished.

To go on with the report to Washington of what had taken place in the middle of May in Chusan and Kinmen and the Pescadores, I wrote a letter to the chief of naval operations, relating in detail what had happened, stating that I considered the whole Chusan operation to be very creditable to the Nationalist Government, but that the attachés

had not accepted my reports and I was therefore sending them direct to the chief of naval operations.

However, I knew that my report, being made by myself, who was in an unofficial status, would not be accepted in the face of the strong official report coming in from the attachés and the consul general. I therefore wrote separate letters to Senator Knowland and Congressman Walter Judd, relating what had taken place. In my view it was necessary to counteract the very serious deterioration in the position of the Nationalist Government caused by the spreading of such false reports.

I was convinced then, as the United States Government has since become convinced, that security of Formosa to the free world was of vital importance to the United States. It is to be borne in mind that the Communist attack on South Korea had not yet taken place.

Mr. MORRIS. Admiral, were there any other episodes?

Admiral COOKE. Yes. A day or two after my conference, let me say abortive conference, with the attachés, all Americans were warned to leave Formosa, and all the women in United States Government employ in Formosa were ordered to leave, and were given the choice of going either to Seoul in Korea or to Saigon in Indochina. Seoul was to be attacked and taken by the North Korean Communists about 1 month later, and Saigon was the scene of frequent bombings by Communist underground elements in that city. I had hoped to forestall this blow to the Nationalist Government of ordering Americans to leave, or warning them to leave for the second time in 5 months.

The facts as related by me to the attachés and to the United States Navy Department were, of course, all borne out. The troops and equipment from Chusan did arrive. Kinmen or Quemoy is still occupied by Nationalist troops.

Now it seemed evident to me after these two incidents, that of Hainan and that of Chusan, had taken place and the facts had been related by me, an Admiral of the United States Navy, retired, in detail as of one who was present in each case, that the attachés accepted the report on Hainan which reflected discredit on the Nationalist Government and rejected completely the report on Chusan which reflected great credit on the Nationalist Government. There seemed to be a confused distortion and appraisal of certain strategic aspects of the general situation.

For instance, the Naval attaché attached to Consul-General Strong's staff, informed me that Chusan should not have been evacuated; that it should have been held by the Nationalists. He had further stated that Chusan did not have more than 60,000 troops in that area, but he strongly asserted his view that the Communists, with many squadrons including jet aircraft, and with several hundred thousand troops, could not take Chusan, some places only 2 miles distant from Communist-held adjacent islands.

At the same time, in defense of the order for Americans to leave Formosa, he stated that the Communists crossing a 100-mile strait could take Formosa with one LST.

Mr. MORRIS. Admiral Cooke, to your knowledge, has anything been done to correct the defective intelligence situation which you have described here today?

Admiral COOKE. I have read about the task force formed under the Hoover Commission, the task force headed by General Clark, which

I believe went into the intelligence situation exhaustively, but I believe that very little, if any, of the report was ever published. I, myself, in October of 1951, was asked to talk to the heads of the Central Intelligence Agency by Gen. Bedell Smith, who was then head, to convey to him the Formosan situation, while I was in Washington after testifying before your committee and before my return to Formosa. I gave General Smith and his assistants most of the facts that I have related to you herein.

More recently, about last January, I learned that the President had appointed a permanent or continuing Commission to watch over the intelligence activities, consisting of 6 or 8 people, and headed by the president of the Massachusetts Institute of Technology, Mr. Killian. I wrote to the Navy member of this Commission immediately, to tell him that I could bear witness to some very serious failures in intelligence that had caused great harm to the United States, and would like to appear before this committee. When this offer, originally made in January, was not accepted, I repeated it several months later, but I have now come to the conclusion that the Commission is not interested in hearing what I have to say.

Mr. MORRIS. Admiral, you have pointed out here for the record some serious failures on the part of intelligence in the past. What do you think should be done about them, in order to insure the internal security of the United States?

Admiral COOKE. It seems to me that there is a possibility, a serious possibility, that the future may bring others who will, in pursuance of a policy, be ready to twist facts, head off facts, deny information to other members of the Government, and to the people which can endanger the security of the United States. The need to provide against such possibilities apparently was felt about atomic energy.

So, not only was a Commission formed, but also a committee of Congress, which could scarcely be liable to go off on such tangents. I think, therefore, that the Security Council of the United States should include a full-time committee composed of able military officers of each service, perhaps those nearing the retirement age or just past the retirement age, and of representatives of the State Department who would be furnished a command ship which would permit them to visit critical areas, such as the Far East or the Mediterranean, acquaint themselves with the local situation, the local intelligence, and report them back to the Security Council, including the President, of course, and to the Defense Department.

Further, to insure that such a committee should not at any time be composed of those who would conform to an adopted theory of policy, that a committee of Congress similar to the Atomic Energy Commission should be established.

Mr. MORRIS. On behalf of the chairman of the Internal Security Subcommittee I wish to thank you for the very important information and the very well-informed views you have presented here today.



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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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## HEARING

BEFORE THE

SUBCOMMITTEE TO INVESTIGATE THE  
ADMINISTRATION OF THE INTERNAL SECURITY  
ACT AND OTHER INTERNAL SECURITY LAWS

OF THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

SCOPE OF SOVIET ACTIVITY IN THE  
UNITED STATES

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DECEMBER 17, 1956

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PART 37

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SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION OF THE INTERNAL SECURITY  
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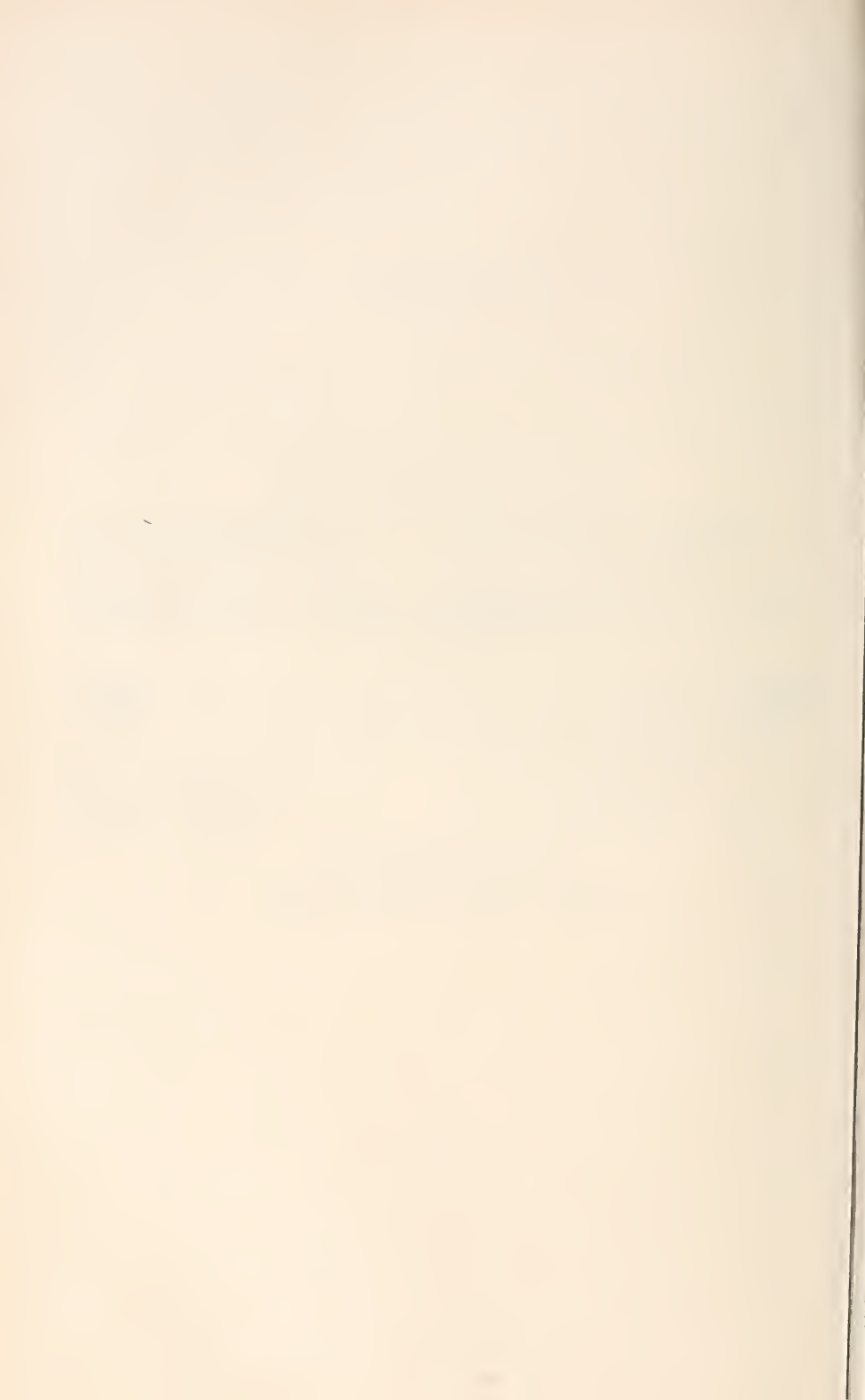
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# SCOPE OF SOVIET ACTIVITY IN THE UNITED STATES

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MONDAY, DECEMBER 17, 1956

UNITED STATES SENATE,  
SUBCOMMITTEE TO INVESTIGATE THE ADMINISTRATION  
OF THE INTERNAL SECURITY ACT AND OTHER  
INTERNAL SECURITY LAWS OF THE  
COMMITTEE ON THE JUDICIARY,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 10:30 a. m., in the Old Supreme Court Chamber, United States Capitol, Senator Olin D. Johnston presiding.

Present: Senator Johnston and Jenner.

Also present: J. G. Sourwine, associate counsel; William Rusher, administrative counsel; and Benjamin Mandel, research director.

Senator JOHNSTON. The committee will come to order.

You may call the first witness.

Mr. SOURWINE. The Honorable Francis Wilcox, Assistant Secretary of State.

Senator JOHNSTON. Will you please come around, Mr. Wilcox, and hold up your right hand to be sworn.

Do you swear the evidence you give before the subcommittee to be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILCOX. I do.

TESTIMONY OF FRANCIS O. WILCOX, ASSISTANT SECRETARY OF  
STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS, ACCOMPANIED BY PAUL A. TOUSSAINT, SPECIAL ASSISTANT TO THE DIRECTOR, OFFICE OF INTERNATIONAL ADMINISTRATION

Mr. SOURWINE. Mr. Chairman, the purpose of this hearing is to bring the committee's record up to date with respect to the necessity for legislation at this time dealing with the problem of disloyalty to the United States among American nationals employed by the United Nations.

As the Chair knows, we have held a number of hearings on this subject, and bills purporting to deal with this problem have been before the Judiciary Committee on several occasions.

It may be well at this time to offer for the record the first bill on this subject, which was S. 3 of the 83d Congress, and the bill now pending before the Judiciary Committee, which is S. 782—it is not pending before the Judiciary, it was reported out of the Judiciary, and was placed on the Senate Calendar. I ask that those be inserted in the record at this time.

Senator JOHNSTON. There will be inserted into the record S. 3, the 83d Congress, and S. 782 of the 84th Congress. They will become a part of the record at this time.

(The bills referred to were marked "Exhibits No. 354 and No. 354-A" and are as follows:)

EXHIBIT No. 354

[S. 3, 83d Cong., 1st sess.]

AN ACT To prevent citizens of the United States of questionable loyalty to the United States Government from accepting any office or employment in or under the United Nations, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That (a) no citizen of the United States hereafter shall accept any office or employment in or under the United Nations or any organ or agency thereof unless he has applied in writing to the Attorney General of the United States for, and has received from such officer, the security clearance required by this section.

(b) Under such regulations as the Attorney General shall prescribe, each application for security clearance filed pursuant to subsection (a) shall bear the fingerprints of the applicant, and shall contain a true and complete statement, executed by the applicant under oath, of the following information concerning such applicant:

(1) Each arrest, indictment, or conviction of the applicant for the violation or alleged violation of any law of the United States or of any State or Territory of the United States other than a violation or alleged violation of any law or ordinance for the regulation of motor vehicle traffic punishable as a misdemeanor.

(2) Each membership held by the applicant at any time in any organization or any service rendered to or operated under the discipline of any organization (A) teaching or advocating the overthrow of the Government of the United States by force or violence, (B) registered as a Communist-action or Communist-front organization pursuant to section 7 of the Subversive Activities Control Act of 1950, or (C) required by final order of the Subversive Activities Control Board to register pursuant to such section.

(3) Each name, other than the name subscribed upon such application, by which such applicant has been known and shall forward such information to to the United Nations or special agency thereof wherein the applicant is seeking employment.

(4) Each occasion on which the applicant has applied to the Government of the United States for a passport and has been denied such passport.

(5) The circumstances under which the applicant has been discharged or has resigned from any office or employment in or under the Government of the United States or any agency or instrumentality thereof.

(6) Such other information as the Attorney General shall determine to be necessary for the purpose of ascertaining whether the occupancy by the applicant of any office or employment in or under the United Nations or any organ or agency thereof would involved reasonable probability of danger to the security of the United States.

(c) Upon the filing of any application pursuant to this section, the Attorney General shall conduct as expeditiously as may be practicable such investigation as he shall deem necessary to ascertain whether in his opinion the occupancy by the applicant of any office or employment in or under the United Nations or any organ or agency thereof would involve reasonable possibility of danger to the security of the United States. If no such possibility is determined to exist, the Attorney General shall furnish to the applicant a written statement of security clearance. If such possibility is determined to exist, the Attorney General shall furnish to the applicant a written denial of his application together with a statement of his reason for such denial.

SEC. 2. Each citizen of the United States who on the date of enactment of this Act occupies any office or is engaged in any employment in or under the United Nations or any organ or agency thereof shall, within sixty days after such date, file with the Attorney General of the United States a registration statement in such form as the Attorney General shall prescribe. Each registration statement shall bear the fingerprints of the person filing such statement, and shall contain a true and complete statement, executed by such person under oath, of the following information concerning such person:

(a) The nature of the office or employment held by such person in or under the United Nations or any organ or agency thereof.

(b) The period during which such office or employment has been held by such person.

(c) Each element of information specified in paragraphs (1) to (6), inclusive, of subsection 1 (b) with respect to applicants for security clearance under section 1 of this Act.

SEC. 3 (a) Whoever, being a citizen of the United States, shall accept any office or employment in or under the United Nations or any organ or agency thereof in violation of subsection 1 (a) of this Act shall be fined not more than \$10,000 or imprisoned for not more than five years, or both.

(b) Whoever, being a citizen of the United States and an officer or employee of the United Nations or any organ or agency thereof, shall willfully fail to comply with the requirements of section 2 of this Act, or who shall aid, abet, or counsel any other such person to refrain from compliance with such requirements, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

(c) Whoever shall willfully make any false statement in any application or registration statement filed under this Act, or willfully omit to state in any such application or registration statement any fact required by law or regulation to be stated therein or necessary to make the statements made or information given therein not misleading, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

Passed the Senate June 8, 1953.

Attest:

J. MARK TRICE, *Secretary*.

#### EXHIBIT No. 354-A

[S. 782, 84th Cong., 2d sess.]

[Omit the part in brackets and insert the part printed in italics]

A BILL To prevent citizens of the United States of questionable loyalty to the United States Government from accepting any office or employment in or under the United Nations, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That* (a) no citizen of the United States hereafter shall accept any office or employment in or under the United Nations or any organ or agency thereof *or any other international agency or organization* unless he has applied in writing to the Attorney General of the United States for, and has received from such officer, the security clearance required by this section.

(b) Under such regulations as the Attorney General shall prescribe, each application for security clearance filed pursuant to subsection (a) shall bear the fingerprints of the applicant, and shall contain a true and complete statement, executed by the applicant under oath, of the following information concerning such applicant:

(1) Each arrest, indictment, or conviction of the applicant for the violation or alleged violation of any law of the United States or of any State or Territory of the United States other than a violation or alleged violation of any law or ordinance for the regulation of motor-vehicle traffic punishable as a misdemeanor.

(2) Each membership held by the applicant at any time in any organization or any service rendered to or operated under the discipline of any organization (A) teaching or advocating the overthrow of the Government of the United States by force and violence, (B) registered as a Communist-action or Communist-front organization pursuant to section 7 of the Subversive Activities Control Act of 1950, or (C) required by final order of the Subversive Activities Control Board to register pursuant to such section.

(3) Each name, other than the name subscribed upon such application, by which such applicant has been known and shall forward such information to the United Nations or special agency thereof wherein the applicant is seeking employment.

(4) Each occasion on which the applicant has applied to the Government of the United States for a passport and has been denied such passport.

(5) The circumstances under which the applicant has been discharged or has resigned from any office or employment in or under the Government of the United States or any agency or instrumentality thereof.

(6) Such other information as the Attorney General shall determine to be necessary for the purpose of ascertaining whether the occupancy by the applicant of any office or employment in or under the United Nations or any organ or agency thereof *or any other international agency or organization* would involve reasonable **[probability]** *possibility* of danger to the security of the United States.

(c) Upon the filing of any application pursuant to this section, the Attorney General shall conduct as expeditiously as may be practicable such investigation as he shall deem necessary to ascertain whether in his opinion the occupancy by the applicant of any office or employment in or under the United Nations or any organ or agency thereof *or any other international agency or organization* would involve reasonable possibility of danger to the security of the United States. If no such possibility is determined to exist, the Attorney General shall furnish to the applicant a written statement of security clearance. If such possibility is determined to exist, the Attorney General shall furnish to the applicant a written denial of his application together with a statement of his reason for such denial *and shall forward such information to the United Nations or special agency thereof or other international agency or organization wherein the applicant is seeking employment.*

SEC. 2. Each citizen of the United States who on the date of enactment of this Act occupies any office or is engaged in any employment in or under the United Nations or any organ or agency thereof *or any other international agency or organization* shall, within sixty days after such date, file with the Attorney General of the United States a registration statement in such form as the Attorney General shall prescribe. Each registration statement shall bear the fingerprints of the person filing such statement, and shall contain a true and complete statement, executed by such person under oath, of the following information concerning such person:

(a) The nature of the office or employment held by such person in or under the United Nations or any organ or agency thereof *or any other international agency or organization.*

(b) The period during which such office or employment has been held by such person.

(c) Each element of information specified in paragraphs (1) to (6), inclusive, of subsection 1 (b) with respect to applicants for security clearance under section 1 of this Act.

SEC. 3. (a) Whoever, being a citizen of the United States, shall accept any office or employment in or under the United Nations or any organ or agency thereof *or any other international agency or organization* in violation of subsection 1 (a) of this Act shall be fined not more than \$10,000 or imprisoned for not more than five years, or both.

(b) Whoever, being a citizen of the United States and an officer or employee of the United Nations or any organ or agency thereof *or any other international agency or organization*, shall willfully fail to comply with the requirements of section 2 of this Act, or who shall aid, abet, or counsel any other such person to refrain from compliance with such requirements, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

(c) Whoever shall willfully make any false statement in any application or registration statement filed under this Act, or willfully omit to state in any such application or registration statement any fact required by law or regulation to be stated therein or necessary to make the statements made or given therein not misleading, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

Mr. SOURWINE. Mr. Wilcox, would you give the reporter your name and your title.

Mr. WILCOX. Francis O. Wilcox, Assistant Secretary of State for International Organization Affairs.

Mr. SOURWINE. You were formerly with us down on the Hill with the Foreign Relations Committee, Mr. Wilcox?

Mr. WILCOX. Yes; for many years.

Mr. SOURWINE. Are you familiar, sir, with the State Department's position respecting the desirability of legislation dealing in any way with the problem of disloyalty to the United States by American nationals employed by international organizations?

Mr. WILCOX. Yes. And, I have a very brief statement, Mr. Chairman, which, with your permission, I should like to read into the record. I think it will take me about 10 minutes.

Senator JOHNSTON. You may read that into the record. I think that would probably be the best way to get it in.

Mr. WILCOX. I think that would set the problem in its proper focus, Mr. Chairman.

Senator JOHNSTON. You may proceed.

Mr. WILCOX. Mr. Chairman, I wish to preface my remarks by saying I appreciate the consideration shown by the subcommittee in permitting me to choose the time most convenient for my appearance. I also appreciate the opportunity extended me to comment on the question of the desirability of legislation dealing with the loyalty measures to be applicable to American nationals employed by, or seeking employment with, public international organizations.

This is not the first opportunity the Department of State has had to comment on legislation of the type now under consideration.

In 1953 the Department, when commenting on S. 3, observed that it seemed in the best interest of the United States to give the executive procedure a thoroughgoing try and that the question of any legislative approach to the problem be held in abeyance pending an assessment of the results produced under that procedure.

In 1955 the Department, then commenting on S. 782 and having had the benefit of seeing the results of the Executive order procedure, recommended that legislation was unnecessary. The Department observed that the objectives of S. 782 had already been achieved under the Executive order procedure.

As I see it, the objectives of the Congress and of the executive branch in these matters are identical. There are two principal objectives:

First, we should seek to have additional topflight Americans employed by international organizations.

Second, and equally important, these Americans must be people of the highest loyalty and integrity.

In order to achieve these twin objectives we must be certain that the loyalty clearance procedure satisfies loyalty and security needs without creating any unnecessary obstacles to the recruitment of really qualified Americans. An unwieldy process, or major procedure involving changes at this time, could discourage Americans from seeking employment with international organizations. Also, international organizations might tend to exclude Americans from their employment programs simply to avoid becoming involved in protracted or new and untried procedures.

In order to continue to receive the maximum cooperation from the organizations concerned, it seems best that we adhere to a procedure which they have already accepted. It seems to me that any departure from the procedure now in effect would needlessly reopen to public international debate the question of this Government's obligation to respect the independent character of the various international secretariats in which we participate.

Since January 9, 1953, the loyalty clearance of Americans employed by, or seeking employment with, public international organizations has been accomplished under the provisions of Executive Order 10422, as amended by Executive Order 10459 on June 2, 1953. The Execu-

tive order, as amended, assigns specific areas of responsibility to the International Organizations Employees Loyalty Board and to the Department of State.

Since Judge Henry S. Waldman, Chairman of the International Organizations Employees Loyalty Board, is scheduled to appear before the subcommittee—and is here in the room this morning—I shall confine my statement to the Department of State's functions pursuant to the terms of the Executive order.

The Executive order designates the Secretary of State as the channel through which personnel forms are to be routed to the Loyalty Board by individual employees or applicants. In practice, with the concurrence of the Loyalty Board, some international organizations forward the personnel forms directly to the Loyalty Board.

The Secretary of State is also the channel through which the Loyalty Board forwards its advisory recommendations or determinations to the executive heads of the international organizations. These determinations are made by the Loyalty Board upon the basis of reports of investigation which the Board retains. Thus, in this connection, the Department of State acts primarily as a courier. It does not evaluate either the reports of investigation or the advisory determinations.

As we are all aware, the Executive order has no binding force and effect upon international organizations. An advisory determination, whether favorable or adverse, submitted to the executive head of an organization is for, and I quote the Executive order, "his use in exercising his rights and duties with respect to the personnel." The decision as to whether a given employee, or applicant for employment, meets the required standard of integrity is made by the executive head of the agency.

The most important function exercised by the Department of State, in order to give force and effect to the provisions of the Executive order, relates to the arrangements negotiated with the executive heads of organizations employing, or contemplating the employment of, American nationals. Following the issuance of the Executive order in January 1953, the Department of State did in fact negotiate arrangements with the organizations concerned.

The arrangements, in substance, provide that employees of American nationality, or American nationals seeking employment, execute appropriate personnel forms for submission to the Loyalty Board. Furthermore, under the arrangements, the executive heads of the organizations take into consideration the Loyalty Board's advisory determination in deciding whether to employ or retain the American concerned.

The Department of State and the International Organizations Employees Loyalty Board have worked together closely to give full effect to the intent of the Executive order. In the light of the experience gained since January 1953, it is the Department's considered opinion that the Executive order's mandate has been carried out.

The Department of State and the Loyalty Board working together have, wherever necessary, and without sacrificing the intent of the Executive order, overcome the administrative problems which have arisen. We have also been successful in establishing machinery which permits the expeditious completion of the investigative procedure

without unduly hampering the recruitment and employment of qualified Americans.

It has been the expressed desire of both the executive branch and the legislative branch that more Americans obtain employment with international organizations. Indeed, Mr. Chairman, most of the appearances that I have made before Congress have resulted in Members of Congress raising the question as to whether we are making real progress in getting more qualified Americans in these various international agencies. We do not have as many as we should have in any of the specialized agencies in proportion to the contribution we make to the budget of these organizations. It has been our desire to strengthen the staffs of these agencies by encouraging the employment of more qualified and loyal Americans.

The Department of State is convinced that the goal is being met within the spirit and intent of the Executive order. It is the Department of State's considered opinion also that legislation of the type proposed in 1953 and 1955—and I refer, Mr. Chairman, to S. 3 and S. 782—would add nothing to the safeguards contained in the Executive order. Indeed, it would have an adverse effect on the recruitment and employment of Americans by international organizations.

I feel very strongly that legislation which would serve to supplant the Executive order procedure would set the United States back 2 or 3 years in its efforts to see qualified, competent Americans of high integrity on the payroll of international organizations in which the United States participates. And when I say that, Mr. Chairman, I want to say, at the same time, that I recognize the desirability from the point of view of individuals submitting these bills, of submitting them for consideration of the committee, that when a committee of the Congress embarks upon an inquiry of this type they are doing what they think is in the international interest, and it is only by exploring these things together that we can come out with the best solution for the national interest.

The basic reason for my conclusion is that we have spent 3 years in setting up and improving a working system. The organizations have gradually come to understand it and to work with us under it. If we change this system, as the draft bills would have done, we would create new problems and have to start the difficult process all over again.

Moreover, there are a number of countries in these various organizations—a good many of them very friendly countries—which have been critical of us all along. We have now largely succeeded in overcoming these criticisms. It would not now be in the national interest to pursue a course which would again stir up this criticism and ill will among those various countries.

Senator JENNER. What countries do you refer to?

Mr. WILCOX. Senator, there are a number of countries in the U. N.—

Senator JENNER. Would you mind naming some of them?

Mr. WILCOX. I would be glad to do that to you personally, but I would rather not put on the record the names of the countries that have criticism; it would look as though I were criticizing them for their criticism. I would be glad to give you a list.

Senator JENNER. I would like to have it.

Senator JOHNSTON. Are there countries scrutinizing the people that we employ a little more than we are at the present time; is that what they are doing?

Mr. WILCOX. I think, Mr. Chairman, there is some feeling that the head of the international agencies, under the charters of the organizations, have the final determination as to the employees that he should employ, and that we were perhaps imposing conditions that the charters did not envisage at the time that they were drafted and signed.

Senator JOHNSTON. Do you mean to say that the United States doesn't have a right to say whether or not a citizen of the United States shall be employed or not employed?

Mr. WILCOX. That, sir, is a moot question. We have taken the view that all American nationals ought to go through a loyalty process and procedure. On the other hand, the Charter of the United Nations and the charters of the specialized agencies do bestow upon the directors general of those agencies the right to hire a staff which they think is competent and qualified to do the job that the organization has to do.

Now, gradually, I think, our attitude toward this problem has been understood and has been accepted. The directors general are working with us in the clearance process. And I made the point that, since this was now pretty largely settled and working fairly well, I think it might be unwise to stir it up again.

Senator JOHNSTON. I notice you used the words "fairly well." What do you mean by that?

Mr. WILCOX. Well, sir, I would be glad to delete the word "fairly" from the record. It is working well, I think.

I have just two final paragraphs, Mr. Chairman, and then I will have completed my statement.

For these reasons the Department of State is opposed to proposals such as those under discussion. I am certain that Mr. Waldman's presentation and analysis of the Executive order procedure will make it abundantly clear that the procedure has served to overcome the conditions which existed prior to 1953, whereby employment with international organizations could be obtained without proper and adequate review of information.

In closing, Mr. Chairman, I wish to emphasize that the United States remains determined that there should be no question regarding the loyalty or integrity of our citizens who hold positions with international organizations and that they should be sound and responsible Americans.

And I may say that my experience on Capitol Hill has led me to realize that this is a feeling that the Members of Congress strongly hold, and I determined when I went to the State Department that I would do all I could to respect and uphold the wishes of the Congress in this regard.

We have done and shall continue to do everything we can to this end. I think it is fair to state that we have made remarkable progress since this problem came into sharp focus in 1952. The procedure we have today serves, in my judgment, the best interests of the United States. We believe this procedure will continue to meet the common objectives of the Congress and of the executive branch.

I might say in conclusion, Mr. Chairman, that I appreciate the interest this committee has shown in this problem and the encouragement which it has given to us.

Senator JENNER. Mr. Wilcox, I was a little late.

In your statement you made a reference: it "came into sharp focus in 1952." Just what did you refer to? Was that where this subcommittee took testimony from several employees of the United Nations, and they took the fifth amendment. Is that the incident you refer to?

Mr. WILCOX. A series of events, yes, and your committee was instrumental, I think, in bringing this question into focus. I think it is safe to say that, prior to 1952, there hadn't been too great a concern expressed on the part of the American people, the problem hadn't been felt thoroughly prior to that time.

Mr. SOURWINE. Mr. Wilcox, how many international organizations are there to which the procedure, under the two Executive orders you mentioned, are applicable?

Mr. WILCOX. There are some 26, Mr. Sourwine.

Mr. SOURWINE. And they have all agreed to this procedure now?

Mr. WILCOX. Yes, they have.

Mr. SOURWINE. How many Americans are employed in total, in these organizations? Do you have a figure?

Mr. WILCOX. We don't have the figures, but we can get them.

Senator JOHNSTON. I think it would be well for you to give the names and set them out, so we will have them.

Mr. WILCOX. I will be glad to supply them for the record. I do not have the detailed figure here this morning.

Senator JOHNSTON. Will you do that?

Mr. WILCOX. Yes, sir.

(The information supplied by Mr. Wilcox was marked "Exhibit No. 355" and reads as follows:)

DEPARTMENT OF STATE,  
*Washington, February 6, 1957.*

HON. JAMES O. EASTLAND,  
*United States Senate, Washington, D. C.*

DEAR SENATOR EASTLAND: I refer to the letter dated December 17, 1956, from Mr. Robert Morris concerning 11 items of information which your subcommittee requested me to submit for the record in the course of its hearings on Monday, December 17, 1956.

Except as noted below, the enclosed material covers all items listed in Mr. Morris' letter.

Item 11, "Number of advisory opinions or memos presented by the International Loyalty Board, information by agencies," was submitted during the course of the hearing by Judge Waldman in the form of a status report dated November 30, 1956, prepared by the International Organizations Employees Loyalty Board. A portion of the information requested under item 10, "Number of cases from each international agency," is contained in the status report referred to above. The information not contained in the status report, "Number of cases of doubtful loyalty," is supplied in one of the enclosed papers.

There will be a delay in providing "Number of Americans employed by international organizations who were formerly citizens of other nations, with suitable cutoff date" (item 9) as the records of the International Organizations Employees Loyalty Board are not maintained on the basis of nationality. The Department and the International Organizations Employees Loyalty Board are endeavoring to provide this information if it is possible to do so.

With regard to item 2, "Number of American nationals employed by international organizations," the enclosed tables do not include information on the number of Americans employed in the following voluntary programs: The United

Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Korean Reconstruction Agency, the United Nations Children's Fund, and the Office of the United Nations High Commissioner for Refugees. Figures for these agencies will be supplied in supplemental tables as soon as they can be obtained from the field.

I trust that the information enclosed will be helpful to you and to the members of your subcommittee.

Sincerely yours,

FRANCIS O. WILCOX,  
*Assistant Secretary.*

Mr. SOURWINE. Will you give us the names of all the organizations?

Mr. WILCOX. Yes, sir.

(The list of organizations as furnished by Mr. Wilcox was marked "Exhibit No. 356" and reads as follows:)

#### EXHIBIT No. 356

#### INTERNATIONAL ORGANIZATIONS COMING WITHIN THE SCOPE OF EXECUTIVE ORDER 10422 AS AMENDED BY EXECUTIVE ORDER 10459

Following is a list of all international organizations coming within the scope of Executive Order 10422, as amended by Executive Order 10459:

United Nations—includes:

Office of the United Nations High Commissioner for Refugees

United Nations Secretariat

United Nations Relief and Works Agency for Palestine Refugees in the Near East

United Nations Korean Reconstruction Agency

United Nations Children's Fund

United Nations Educational, Scientific, and Cultural Organization

International Civil Aviation Organization

Food and Agriculture Organization

World Health Organization

International Labor Organization

International Telecommunication Union

International Bank for Reconstruction and Development

International Monetary Fund

World Meteorological Organization

Pan American Union

Pan American Sanitary Bureau

Inter-American Institute of Agricultural Sciences

Inter-American Defense Board

Pan American Institute of Geography and History

Inter-American Radio Organization

Intergovernmental Committee for European Migration

General Agreement on Tariffs and Trade

Cotton Advisory Committee

Interparliamentary Union

International Hydrographic Bureau

Caribbean Commission

South Pacific Commission

Inter-American Tropical Tuna Commission

International North Pacific Fisheries Commission

International Pacific Halibut Commission

International Pacific Salmon Fisheries Commission

International Commission of the Cape Spatel Light

International Union for the Protection of Industrial Property

International Bureau of the Permanent Court of Arbitration

International Bureau of Weights and Measures

International Sugar Council

International Whaling Commission

International Wheat Council

Northwest Atlantic Fisheries Commission

Permanent International Association of Navigation Congresses

Central Committee for the Navigation of the Rhine

International Tin Study Group  
 Universal Postal Union  
 International Finance Corporation  
 American International Institute for the Protection of Childhood  
 Postal Union of Americas and Spain  
 Pan American Railway Congress Association  
 Inter-American Indian Institute  
 International Wool Study Group  
 Rubber Study Group  
 International Council of Scientific Unions and Associated Unions

Mr. SOURWINE. Will you also give us the figure on the number of American nationals employed, and break it down?

Mr. WILCOX. Yes.

Mr. SOURWINE. Since you don't have the figure, will you give us a percentage of Americans to the whole staff?

Mr. WILCOX. Yes.

Mr. SOURWINE. Can you show that as a figure?

Mr. WILCOX. We shall be glad to do that.

(A list of international organizations employing United States citizens, as furnished by Mr. Wilcox, was marked "Exhibit No. 357" and is as follows:)

#### EXHIBIT No. 357

##### INTERNATIONAL ORGANIZATIONS EMPLOYING UNITED STATES CITIZENS

The following 27 organizations presently employ United States citizens:

United Nations—includes:

Office of the United Nations High Commissioner for Refugees

United Nations Secretariat

United Nations Relief and Works Agency for Palestine Refugees in the Near East

United Nations Korean Reconstruction Agency

United Nations Children's Fund

United Nations Educational, Scientific, and Cultural Organization

International Civil Aviation Organization

Food and Agriculture Organization

World Health Organization

International Labor Organization

International Telecommunication Union

International Bank for Reconstruction and Development

International Finance Corporation (the arrangement for coverage under Executive Order 10422, as amended, for applicants for employment with the International Finance Corporation is included in the arrangement with the International Bank for Reconstruction and Development)

International Monetary Fund

Pan American Union

Pan American Sanitary Bureau

Inter-American Institute of Agricultural Sciences

Inter-American Defense Board

Pan American Institute of Geography and History

Inter-American Radio Organization

Intergovernmental Committee for European Migration

General Agreement on Tariffs and Trade

Cotton Advisory Committee

Interparliamentary Union

International Hydrographic Bureau

Caribbean Commission

South Pacific Commission

Inter-American Tropical Tuna Commission

International North Pacific Fisheries Commission

International Pacific Halibut Commission

International Pacific Salmon Fisheries Commission

The following 20 organizations presently employ no United States citizens:

World Meteorological Organization

International Commission of the Cape Sparte Light  
 International Union for the Protection of Industrial Property  
 International Bureau of the Permanent Court of Arbitration  
 International Bureau of Weights and Measures  
 International Sugar Council  
 International Whaling Commission  
 International Wheat Council  
 Northwest Atlantic Fisheries Commission  
 Permanent International Association of Navigation Congresses  
 Central Committee for the Navigation of the Rhine  
 International Tin Study Group  
 Universal Postal Union  
 American International Institute for the Protection of Childhood  
 Postal Union of Americas and Spain  
 Pan American Railway Congress Association  
 Inter-American Indian Institute  
 International Wool Study Group  
 Rubber Study Group  
 International Council of Scientific Unions and Associated Unions

Mr. SOURWINE. Can you also show the percentage of the budget of these organizations which is paid by the United States?

Mr. WILCOX. I will be glad to do that.

Mr. SOURWINE. This will point up what you said, that the budget was far out of proportion to the total Americans employed.

Mr. WILCOX. Yes, sir.

(The information furnished by Mr. Wilcox was marked "Exhibits Nos. 358 and 358-A" and is as follows:)

## EXHIBIT No. 358

*Employment of United States and Iron Curtain nationals on professional (internationally recruited) staffs compared with percentage of assessment, 1956—United Nations and specialized agencies<sup>1</sup>*

	Organization								
	UN <sup>2</sup>	UNESCO <sup>3</sup>	ICAO	WHO	FAO	ILO	ITU	Bank <sup>4</sup>	Fund <sup>5</sup>
United States:									
Number of employees.....	322	37	14	67	49	26	3	116	93
Percent of employees.....	27.65	9.22	9.86	12.59	14.12	7.05	3.17	48.73	43.46
Percent of assessment.....	33.33	30.00	33.33	29.96	31.50	25.00	9.95	38.60	35.61
U. S. S. R.:									
Number of employees.....	25	5	(7)	81	(7)	4	92	(7)	(7)
Percent of employees.....	2.15	1.25		19		1.08	103.45		
Percent of assessment.....	13.96	13.57		9.86		10.00	6.19		
Albania:									
Number of employees.....		(7)	(7)	(8)	(7)			(7)	(7)
Percent of employees.....				.04		.12	0.08		
Percent of assessment.....	.04								
Bulgaria:									
Number of employees.....	1	(7)	(7)	(8)	(7)			(7)	(7)
Percent of employees.....	.09			.13		.21	.16		
Percent of assessment.....	.14								
Czechoslovakia:									
Number of employees.....	12	8	(7)	81	(7)	1	1		112
Percent of employees.....	1.03	1.99		19		.27	1.72		.93
Percent of assessment.....	0.84	.85		.84		.95	1.30	1.52	1.62
Hungary:									
Number of employees.....	2	1	(7)	71	(7)		.16	(7)	(7)
Percent of employees.....	.17	.25		19		.50			
Percent of assessment.....	.46	.45		.33					
Poland:									
Number of employees.....	18	1	2	74	(7)	2			112
Percent of employees.....	1.55	1.25	1.41	75		.54			.93
Percent of assessment.....	1.56	1.56	1.67	1.23		1.24	1.63	1.52	1.62

See footnotes at end of table.

*Employment of United States and Iron Curtain nationals on professional (internationally recruited) staffs compared with percentage of assessment, 1956—United Nations and specialized agencies<sup>1</sup>—Continued*

	Organization								
	UN <sup>2</sup>	UNESCO <sup>3</sup>	ICAO	WHO	FAO	ILO	ITU	Bank <sup>4</sup>	Fund <sup>5</sup>
Rumania:									
Number of employees		( <sup>7</sup> )	( <sup>7</sup> )	( <sup>8</sup> )	( <sup>7</sup> )	( <sup>7</sup> )		( <sup>7</sup> )	( <sup>7</sup> )
Percent of employees									
Percent of assessment	.50			.42			.16		
Total of Iron Curtain countries:									
Number of employees	58	15	2	<sup>8</sup> 7	( <sup>7</sup> )	7	3		4
Percent of employees	4.99	3.74	1.41	1.32		1.89	5.17		1.86
Percent of assessment	17.50	16.43	1.67	12.85		13.02	9.68	3.04	3.24
Total staff (international)	1,164	401	142	532	347	369	58	238	214

<sup>1</sup> Employment figures as of various dates in autumn 1956. Assessment figures are for calendar year 1957.

<sup>2</sup> Employment as of Dec. 31, 1956. Includes 116 employees in the principal level, general service category.

<sup>3</sup> 1956 assessment. 1957 is not yet available, but not expected to differ significantly.

<sup>4</sup> The IBRD is funded by subscriptions rather than assessments. Figures represent original subscription as of Aug. 10, 1947.

<sup>5</sup> The IMF is funded by subscriptions rather than assessments. Figures represent original subscriptions as of June 30, 1947.

<sup>6</sup> Includes United States territories.

<sup>7</sup> Nonmember.

<sup>8</sup> Inactive member(s). Declared withdrawal from organization in 1949 and 1950, and has not paid assessment since 1949.

<sup>9</sup> Includes 1 staff member from Ukrainian SSR.

<sup>10</sup> Includes assessments of Byelorussian SSR and Ukrainian SSR.

<sup>11</sup> These are only technically satellite nationals. None owes allegiance to his home government and all plan to become United States citizens.

## EXHIBIT No. 358-A

*Employment of United States and Iron Curtain nationals on professional (internationally recruited) staffs compared with percentage of assessment—Other unilateral organizations and bilateral commissions governed by Executive Order 10422 as amended*

Country	ICEM	GATT	Cotton Advisory Commission	Interpar- liamentary Union <sup>2</sup>	Hydro- graphic Bureau	Caribbean Commis- sion
United States:						
Number of employees .....	<sup>1</sup> 37	2	5	1	1	2
Percent of employees .....	29.84	11.11	55.55	12.50	7.69	2.94
Percent of assessment .....	<sup>3</sup> 29.67	17.00	10.22	15.20	10.60	38.40
U. S. S. R.:						
Number of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	(4)	(4)	11.84	(4)	(4)
Albania:						
Number of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	(4)	(4)	.18	(4)	(4)
Bulgaria:						
Number of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	(4)	(4)	.44	(4)	(4)
Czechoslovakia:						
Number of employees .....	(4)	-----	(4)	-----	(4)	(4)
Percent of employees .....	(4)	-----	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	1.69	(4)	2.56	(4)	(4)
Hungary:						
Number of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	(4)	(4)	.71	(4)	(4)
Poland:						
Number of employees .....	(4)	(4)	(4)	-----	-----	(4)
Percent of employees .....	(4)	(4)	(4)	-----	-----	(4)
Percent of assessment .....	(4)	(4)	(4)	2.83	1.87	(4)
Rumania:						
Number of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of employees .....	(4)	(4)	(4)	-----	(4)	(4)
Percent of assessment .....	(4)	(4)	(4)	1.94	(4)	(4)
Total of Iron Curtain coun- tries:						
Number of employees .....	(4)	-----	(4)	-----	-----	(4)
Percent of employees .....	(4)	-----	(4)	-----	-----	(4)
Percent of assessment .....	(4)	1.69	(4)	20.50	1.87	(4)
Total staff .....	124	13	9	8	13	68

<sup>1</sup> As of June 30, 1956.

<sup>2</sup> 1956 assessment. 1957 not yet available, but not expected to differ significantly.

<sup>3</sup> This percentage refers only to the assessment for administrative expenses. Operational expenses are met through voluntary contributions. The United States contributes up to 45 percent of operational expenses.

<sup>4</sup> Nonmember.

*Employment of United States and Iron Curtain nationals on professional (internationally recruited) staffs compared with percentage of assessment—Other unilateral organizations and bilateral commissions governed by Executive Order 10422 as amended—Continued*

Country	South Pacific Commission	Inter-American Tropical Tuna	International North Pacific Fisheries	International Pacific Halibut Commission	International Pacific Salmon Fisheries
United States:					
Number of employees.....	1	15	1	15	4
Percent of employees.....	1.89	57.70	33.33	83.33	11.76
Percent of assessment.....	12.50	99.00	33.33	50.00	50.00
U. S. S. R.:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Albania:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Bulgaria:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Czechoslovakia:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Hungary:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Poland:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Rumania:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Total of Iron Curtain countries:					
Number of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of employees.....	(4)	(4)	(4)	(4)	(4)
Percent of assessment.....	(4)	(4)	(4)	(4)	(4)
Total staff.....	53	26	3	18	34

<sup>4</sup> Nonmembers.

*Employment of United States and Iron Curtain nationals on professional staffs (internationally recruited) compared with percentage of assessment—Inter-American organizations covered by Executive Order 10422 as amended*

	Pan American Union	Pan American Sanitary Organization	Inter-American Institute of Agricultural Sciences	Inter-American Defense Board	PAIGH	OIR
United States:						
Number of employees.....	94	45	14	15	2	1
Percent of employees.....	52.81	41.66	27.45	55.54	5.71	25.00
Percent of assessment.....	66.00	66.00	69.68	1 66.00	39.41	25.51
(Iron Curtain countries are not members.)						
Total staff (internationally recruited).....	178	108	51	27	2 35	4

<sup>1</sup> Funds for the Inter-American Defense Board are allocated from OAS funds, so the same percentage must be used for both.

<sup>2</sup> Total staff. No breakdown available.

(Information submitted by Mr. Wilcox on nationality of employees in various international organizations was marked "Exhibits Nos. 359 through 359-AA" and is as follows:)

## EXHIBIT No. 359

*United Nations distribution of staff by nationality as of Dec. 31, 1956*

Country	Staff <sup>1</sup>	Percent-age	Country	Staff <sup>1</sup>	Percent-age
Afghanistan.....	4	0.34	Italy.....	6	.52
Argentina.....	14	1.20	Japan.....	5	.43
Australia.....	20	1.72	Jordan.....	3	.26
Austria.....	3	.26	Lebanon.....	4	.34
Belgium.....	28	2.41	Luxembourg.....	2	.17
Bolivia.....	5	.43	Mexico.....	12	1.03
Brazil.....	12	1.03	Nepal.....	1	.09
Bulgaria.....	1	.09	Netherlands.....	22	1.89
Burma.....	5	.43	New Zealand.....	9	.77
Canada.....	44	3.78	Nicaragua.....	1	.09
Ceylon.....	6	.52	Norway.....	21	1.80
Chile.....	14	1.20	Pakistan.....	12	1.03
China.....	48	4.12	Panama.....	1	.09
Colombia.....	7	.60	Paraguay.....	1	.09
Cuba.....	6	.52	Peru.....	7	.60
Czechoslovakia.....	12	1.03	Philippine Republic.....	7	.60
Denmark.....	15	1.29	Poland.....	18	1.55
Dominican Republic.....	1	.09	Saudi Arabia.....	1	.09
Ecuador.....	7	.60	Spain.....	2	.17
Egypt.....	7	.60	Sweden.....	18	1.55
Ethiopia.....	1	.09	Switzerland (nonmember).....	22	1.88
Finland.....	2	.17	Syria.....	6	.52
France.....	90	7.73	Thailand.....	4	.34
Germany (nonmember).....	1	.09	Turkey.....	6	.52
Greece.....	12	1.03	Union of South Africa.....	10	.86
Guatemala.....	2	.17	U. S. S. R.....	25	2.15
Haiti.....	6	.52	United Kingdom.....	150	12.88
Hungary.....	2	.17	United States.....	322	27.65
Iceland.....	2	.17	Uruguay.....	4	.34
India.....	51	4.38	Venezuela.....	3	.26
Indonesia.....	4	.34	Yemen.....	1	.09
Iran.....	9	.77	Yugoslavia.....	7	.60
Iraq.....	2	.17	Stateless and undetermined.....	1	.09
Ireland.....	2	.17			
Israel.....	5	.43			
			Total.....	1,164	100.00

<sup>1</sup> Internationally recruited, but includes 116 staff members in the principal level, general service category.

## EXHIBIT No. 359-A

*United Nations Educational, Scientific, and Cultural Organization—Nationality distribution of staff members as of Oct. 31, 1956<sup>1</sup>*

Country	Professional posts	Percentage	Country	Professional posts	Percentage
Afghanistan.....	1	0.25	Jordan.....	2	.50
Argentina.....	2	.50	Korea.....	1	.25
Australia.....	6	1.50	Lebanon.....	1	.25
Austria.....	5	1.25	Mexico.....	6	1.50
Belgium.....	11	2.74	Netherlands.....	13	3.24
Bolivia.....	1	.25	New Zealand.....	5	1.25
Brazil.....	2	.50	Norway.....	3	.75
Canada.....	10	2.49	Pakistan.....	3	.75
Ceylon.....	1	.25	Panama.....	1	.25
Chile.....	3	.75	Peru.....	3	.75
China.....	4	1.00	Philippines.....	2	.50
Colombia.....	1	.25	Poland.....	1	.25
Czechoslovakia.....	8	1.99	Spain.....	14	3.49
Denmark.....	7	1.74	Sweden.....	3	.75
Ecuador.....	2	.50	Switzerland.....	12	2.99
Egypt.....	8	1.99	Syria.....	2	.50
France.....	96	23.93	Thailand.....	1	.25
German Republic.....	6	1.50	Union of South Africa.....	5	1.25
Greece.....	3	.75	United Kingdom.....	71	17.70
Haiti.....	2	.50	United States.....	37	9.22
Hungary.....	1	.25	U. S. S. R.....	5	1.25
India.....	8	1.99	Uruguay.....	2	.50
Iran.....	1	.25	Yugoslavia.....	2	.50
Iraq.....	1	.25	Stateless.....	4	1.00
Israel.....	1	.25			
Italy.....	8	1.99	Total.....	401	100.00
Japan.....	3	.75			

<sup>1</sup> Internationally recruited. In addition, there are 521 on the General Services Staff, and 76 ETAP financed staff.

## EXHIBIT No. 359-B

*Food and Agriculture Organization—Nationality distribution of staff, Oct. 31, 1956<sup>1</sup>*

Country	Professional staff	Percent of professional staff	Country	Professional staff	Percent of professional staff
Argentina.....	2	0.58	Italy.....	18	5.19
Australia.....	11	3.17	Japan.....	4	1.15
Austria.....	3	.86	Jordan.....	2	.58
Belgium.....	8	2.30	Mexico.....	5	1.44
Brazil.....	3	.86	Netherlands.....	11	3.17
Burma.....	1	.29	New Zealand.....	5	1.44
Canada.....	15	4.32	Nicaragua.....	1	.29
Ceylon.....	1	.29	Norway.....	3	.86
Chile.....	3	.86	Pakistan.....	2	.58
China.....	5	1.44	Panama.....	1	.29
Costa Rica.....	1	.29	Peru.....	4	1.15
Cuba.....	1	.29	Philippines.....	1	.28
Czechoslovakia.....	1	.29	Portugal.....	2	.58
Denmark.....	5	1.44	Spain.....	13	3.75
Ecuador.....	2	.58	Sweden.....	6	1.73
Egypt.....	3	.86	Switzerland.....	9	2.59
El Salvador.....	1	.29	Syria.....	1	.28
Finland.....	2	.58	Thailand.....	3	.86
France.....	38	10.95	Union of South Africa.....	2	.58
Germany.....	13	3.75	United Kingdom.....	61	17.58
Greece.....	1	.29	United States.....	49	14.12
Honduras.....	1	.29	Uruguay.....	1	.29
Iceland.....	1	.29	Yugoslavia.....	2	.58
India.....	12	3.46	Stateless.....	4	1.15
Iran.....	1	.29			
Ireland.....	2	.58	Total.....	347	100.00

<sup>1</sup> In addition to the totals listed above, there were 566 general service staff employed at headquarters and in regional offices. There were also 719 employees paid from ETAP funds, and 41 paid from special funds.

## EXHIBIT No. 359-C

*International Civil Aviation Organization—Distribution of staff by nationalities as of Nov. 1, 1956*<sup>1</sup>

Country	Professional staff	Percentage	Country	Professional staff	Percentage
Argentina.....	3	2.11	Italy.....	3	2.11
Australia.....	4	2.82	Mexico.....	1	.70
Belgium.....	3	2.11	Netherlands.....	4	2.82
Bolivia.....	1	.70	New Zealand.....	1	.70
Burma.....	1	.70	Norway.....	2	1.41
Canada.....	27	19.02	Peru.....	1	.70
Chile.....	2	1.41	Poland.....	2	1.41
China.....	3	2.11	Spain.....	5	3.52
Cuba.....	3	2.11	Sweden.....	2	1.41
Denmark.....	2	1.41	Switzerland.....	2	1.41
Ecuador.....	1	.70	United Kingdom.....	18	12.68
Egypt.....	2	1.41	United States.....	14	9.86
France.....	25	17.61	Stateless.....	1	.71
Germany.....	1	.70			
India.....	4	2.82	Total.....	142	100.00
Ireland.....	4	2.82			

<sup>1</sup> In addition there were a total of 248 general service employees, of whom 3 were United States nationals and 100 employees paid from TA funds of which 13 were a United States national.

## EXHIBIT No. 359-D

*International Labor Organization—Distribution of Staff by nationalities as of Nov. 6, 1956*

Country	Number	Percent	Country	Number	Percent
Argentina.....	5	1.36	Italy.....	10	2.71
Australia.....	7	1.90	Japan.....	2	.54
Austria.....	10	2.71	Lebanon.....	1	.27
Belgium.....	9	2.44	Mexico.....	9	2.44
Bolivia.....	2	.54	Netherlands.....	5	1.36
Brazil.....	5	1.36	New Zealand.....	3	.81
Burma.....	1	.27	Norway.....	3	.81
Canada.....	16	4.34	Pakistan.....	3	.81
Ceylon.....	1	.27	Panama.....	1	.27
Chile.....	5	1.36	Peru.....	4	1.09
China.....	5	1.36	Philippines.....	1	.27
Costa Rica.....	1	.27	Poland.....	2	.54
Cuba.....	4	1.09	Portugal.....	2	.54
Czechoslovakia.....	1	.27	Spain.....	8	2.17
Denmark.....	1	.27	Sweden.....	4	1.09
Ecuador.....	2	.54	Switzerland.....	34	9.21
Egypt.....	2	.54	Thailand.....	1	.27
El Salvador.....	1	.27	Turkey.....	2	.54
Federal Republic of Germany.....	11	2.98	Union of South Africa.....	1	.27
Finland.....	1	.27	United Kingdom.....	64	17.34
France.....	57	15.45	United States of America.....	26	7.05
Greece.....	2	.54	Uruguay.....	3	.81
Guatemala.....	1	.27	U. S. S. R.....	4	1.08
Haiti.....	1	.27	Venezuela.....	1	.27
India.....	12	3.25	Vietnam.....	1	.27
Indonesia.....	1	.27	Yugoslavia.....	1	.27
Iran.....	1	.27	Stateless.....	3	.81
Ireland.....	4	1.09			
Israel.....	1	.27	Total.....	1 369	100.00

<sup>1</sup> Internationally recruited. There are also 308 in the general services category, and 256 paid from ETAP funds.

## EXHIBIT No. 359-E

*International Telecommunication Union—Nationality distribution of staff Oct. 31, 1956*

Nation	Employees	Percentage	Nation	Employees	Percentage
Argentina.....	3	5.17	India.....	1	1.73
Australia.....	1	1.73	Spain.....	4	6.90
Belgium.....	2	3.45	South Africa.....	1	1.72
Canada.....	1	1.72	United States of America.....	3	5.17
China.....	3	5.17	U. S. S. R.....	1	1.72
Cuba.....	2	3.45	United Kingdom.....	13	22.41
Czechoslovakia.....	1	1.73	Ukraine S. S. R.....	1	1.72
Denmark.....	1	1.73	Stateless.....	1	1.72
France.....	17	29.31			
Italy.....	2	3.45	Total.....	58	100.00

<sup>1</sup> Internationally recruited. In addition there are 166 locally recruited staff, 22 ETAP financed staff, and 1 Operational Services.

## EXHIBIT No. 359-F

*World Health Organization—Distribution of internationally recruited staff by nationality as of Oct. 31, 1956<sup>1</sup>*

Country	Number	Percent	Country	Number	Percent
Argentina.....	4	0.75	Italy.....	12	2.25
Australia.....	9	1.69	Japan.....	1	.19
Austria.....	6	1.13	Lebanon.....	5	.94
Belgium.....	7	1.32	Luxembourg.....	3	.56
Bolivia.....	2	.38	Mexico.....	4	.75
Brazil.....	6	1.13	Netherlands.....	18	3.38
Canada.....	26	4.89	New Zealand.....	8	1.50
Ceylon.....	2	.38	Norway.....	10	1.88
Chile.....	9	1.69	Pakistan.....	1	.19
China.....	7	1.32	Peru.....	1	.19
Colombia.....	3	.56	Philippines.....	3	.56
Costa Rica.....	1	.19	Poland.....	4	.75
Cuba.....	2	.38	Portugal.....	3	.56
Czechoslovakia.....	1	.19	Rumania.....	1	.19
Denmark.....	22	4.13	Spain.....	15	2.82
Ecuador.....	3	.56	Sudan.....	1	.19
Egypt.....	9	1.69	Sweden.....	9	1.69
Finland.....	1	.19	Switzerland.....	42	7.89
France.....	40	7.52	Syria.....	1	.19
Germany.....	6	1.13	U. S. S. R.....	1	.19
Greece.....	6	1.13	Union of South Africa.....	7	1.32
Guatemala.....	1	.19	United Kingdom.....	113	21.24
Haiti.....	3	.56	United States.....	67	12.59
Hungary.....	1	.19	Venezuela.....	1	.19
India.....	12	2.25	Yugoslavia.....	3	.56
Iran.....	2	.38	Stateless.....	1	.19
Ireland.....	4	.75			
Israel.....	2	.38	Total.....	532	100.00

<sup>1</sup> In addition, there are 464 locally recruited; plus 404 who are financed from technical assistance funds and 10 financed from the children's fund budget.

## EXHIBIT No. 359-G

*International Monetary Fund—Nationality distribution of staff members as of Dec. 31, 1956*

Country	Professional posts	Percent-ages	Country	Professional posts	Percent-ages
Australia.....	3	1.40	Japan.....	2	.93
Austria.....	1	.47	Mexico.....	2	.93
Belgium.....	1	.47	Netherlands.....	8	3.74
Brazil.....	1	.47	New Zealand.....	1	.47
Burma.....	1	.47	Nicaragua.....	1	.47
Canada.....	9	4.21	Norway.....	2	.93
Ceylon.....	1	.47	Pakistan.....	2	.93
Chile.....	3	1.40	Paraguay.....	2	.93
China.....	11	5.14	Philippines.....	1	.47
Colombia.....	1	.47	Poland.....	2	.93
Czechoslovakia.....	2	.93	South Africa.....	1	.47
Denmark.....	2	.93	Sweden.....	1	.47
Ecuador.....	1	.47	Syria.....	1	.47
Egypt.....	3	1.40	Thailand.....	1	.47
France.....	8	3.74	Turkey.....	2	.93
Germany.....	2	.93	United Kingdom.....	22	10.28
Greece.....	4	1.87	United States.....	93	43.45
Guatemala.....	1	.47	Venezuela.....	1	.47
India.....	7	3.27			
Iran.....	1	.47	Total.....	214	100.00
Italy.....	5	2.34			

## EXHIBIT No. 359-H

*International Bank of Reconstruction and Development—Nationality distribution of staff members as of Dec. 31, 1956*

Country	Professional posts	Percentage	Country	Professional posts	Percentage
Australia.....	3	1.26	Jordan.....	1	0.42
Austria.....	1	.42	Luxembourg.....	1	.42
Belgium.....	3	1.26	Mexico.....	1	.42
Canada.....	9	3.78	Netherlands.....	14	5.89
China.....	3	1.26	New Zealand.....	2	.84
Colombia.....	2	.84	Nicaragua.....	2	.84
Cuba.....	1	.42	Norway.....	3	1.26
Denmark.....	3	1.26	Pakistan.....	1	.42
Egypt.....	1	.42	Sweden.....	1	.42
Finland.....	1	.42	Switzerland.....	3	1.26
France.....	13	5.47	Statcless.....	3	1.26
Germany.....	3	1.26	Turkey.....	1	.42
Greece.....	3	1.26	United Kingdom.....	29	12.19
Guatemala.....	1	.42	United States.....	116	48.73
Iceland.....	1	.42	Yugoslavia.....	1	.42
India.....	5	2.10			
Italy.....	6	2.52	Total.....	233	100.00

## EXHIBIT No. 359-I

*Pan American Union—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentage	Country	Professional posts	Percentage
Argentina.....	12	6.74	Honduras.....	1	0.56
Bolivia.....	1	.56	Mexico.....	6	3.37
Brazil.....	13	7.31	Panama.....	7	3.93
Chile.....	6	3.34	Paraguay.....	2	1.13
Colombia.....	12	6.74	Peru.....	3	1.69
Costa Rica.....	4	2.25	United States.....	94	52.81
Cuba.....	4	2.25	Uruguay.....	2	1.13
Ecuador.....	3	1.69	Venezuela.....	2	1.13
El Salvador.....	1	.56			
Guatemala.....	1	.56	Total.....	178	100.00
Haiti.....	4	2.25			

## EXHIBIT No. 359-J

*Inter-American Defense Board—Nationality distribution of staff members as of Dec. 31, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Argentina.....	2	7.40	Mexico.....	1	3.71
Bolivia.....	1	3.71	Nicaragua.....	1	3.71
Brazil.....	2	7.40	Puerto Rico.....	1	3.71
Chile.....	1	3.71	United States.....	15	55.54
Cuba.....	2	7.40	Total.....	27	100.00
Ecuador.....	1	3.71			

## EXHIBIT No. 359-K

*Inter-American Institute of Agricultural Sciences—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Bolivia.....	5	9.81	Mexico.....	3	5.88
Colombia.....	3	5.88	Paraguay.....	1	1.96
Costa Rica.....	11	23.57	Puerto Rico.....	3	5.88
Chile.....	1	1.96	United Kingdom.....	3	5.88
Ecuador.....	1	1.96	United States.....	14	27.45
France.....	1	1.96	Venezuela.....	1	1.96
Germany.....	1	1.96	Total.....	51	100.00
Guatemala.....	2	3.93			
Haiti.....	1	1.96			

## EXHIBIT No. 359-L

*Inter-American Radio Office—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentages
Cuba.....	2	50.00
United Kingdom.....	1	25.00
United States.....	1	25.00
Total.....	4	100.00

## EXHIBIT No. 359-M

*Inter-American Tropical Tuna Commission—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentage
Canada.....	2	7.69
Costa Rica.....	4	15.39
Panama.....	4	15.39
Peru.....	1	3.84
United States.....	15	57.69
Total.....	26	100.00

## EXHIBIT No. 359-N

*Pan American Institute of Geography and History—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Posts <sup>1</sup>	Percentage
Argentina.....	3	8.57
Brazil.....	5	14.29
Mexico.....	25	71.43
United States.....	2	5.71
Total.....	35	100.00

<sup>1</sup> Total staff. No breakdown available.

## EXHIBIT No. 359-O

*Pan American Sanitary Organization—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Argentina.....	4	3.70	Netherlands.....	1	0.93
Bolivia.....	1	.93	New Zealand.....	2	1.85
Brazil.....	8	7.40	Nicaragua.....	2	1.85
Canada.....	3	2.77	Panama.....	1	.93
Chile.....	10	9.26	Peru.....	2	1.85
Colombia.....	3	2.77	Portugal.....	1	.93
Costa Rica.....	1	.93	Spain.....	1	.93
Cuba.....	3	2.77	United Kingdom.....	7	6.48
Denmark.....	1	.93	United States.....	45	41.66
Dominican Republic.....	1	.93	Uruguay.....	1	.93
Ecuador.....	1	.93	Venezuela.....	1	.93
France.....	1	.93	Total.....	108	100.00
Guatemala.....	2	1.85			
Mexico.....	5	4.63			

## EXHIBIT No. 359-P

*Caribbean Commission—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Posts <sup>1</sup>	Percentage
France.....	12	17.65
Netherlands.....	1	1.47
United Kingdom.....	53	77.94
United States.....	2	2.94
Total.....	68	100.00

<sup>1</sup> Total staff. No breakdown available.

## EXHIBIT No. 359-Q

*General Agreement on Tariffs and Trade—Nationality distribution of staff members as of Dec. 20, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Australia.....	1	5.55	Norway.....	1	5.56
Belgium.....	1	5.55	South Africa.....	1	5.56
China.....	1	5.55	Switzerland.....	2	11.11
Finland.....	1	5.55	United Kingdom.....	2	11.11
France.....	3	16.67	United States.....	2	11.11
Germany.....	1	5.56	Total.....	18	100.00
India.....	1	5.56			
Italy.....	1	5.56			

## EXHIBIT No. 359-R

*The Interparliamentary Union—Nationality distribution of staff members as of Dec. 31, 1955*<sup>1</sup>

Country	Posts <sup>2</sup>	Percentage
France.....	1	12.50
Switzerland.....	4	50.00
United Kingdom.....	2	25.00
United States.....	1	12.50
Total.....	8	100.00

<sup>1</sup> 1956 figure not yet available.

<sup>2</sup> Total staff. No breakdown available.

## EXHIBIT No. 359-S

*Intergovernmental Committee for European Migration—Nationality distribution of staff members as of June 30, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Argentina.....	2	1.62	Israel.....	1	0.80
Australia.....	9	7.26	Italy.....	12	9.68
Austria.....	2	1.62	Netherlands.....	6	4.84
Belgium.....	3	2.42	Norway.....	3	2.42
Brazil.....	2	1.62	Rhodesia.....	1	.80
Canada.....	4	3.23	Sweden.....	1	.80
Chile.....	1	.80	Switzerland.....	5	4.03
Costa Rica.....	1	.80	United Kingdom.....	6	4.84
Denmark.....	4	3.23	United States.....	37	29.84
France.....	11	8.87	Venezuela.....	1	.80
Germany.....	8	6.45	Total.....	124	100.00
Greece.....	4	3.23			

## EXHIBIT No. 359-T

*International Cotton Advisory Committee—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Posts <sup>1</sup>	Percentage	Country	Posts <sup>1</sup>	Percentage
Canada.....	1	11.11	United States.....	5	55.56
Cuba.....	1	11.11	Total.....	9	100.00
Mexico.....	1	11.11			
United Kingdom.....	1	11.11			

<sup>1</sup> Includes General Service staff.

## EXHIBIT No. 359-U

*International Hydrographic Bureau—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Posts <sup>1</sup>	Percentage	Country	Posts <sup>1</sup>	Percentage
France.....	6	46.16	United Kingdom.....	1	7.69
Italy.....	3	23.08	United States.....	1	7.69
Monaco.....	1	7.69	Total.....	13	100.00
Switzerland.....	1	7.69			

<sup>1</sup> Total staff. No breakdown available.

## EXHIBIT No. 359-V

*International North Pacific Fisheries Commission—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentage
Canada.....	1	33.33
Japan.....	1	33.33
United States.....	1	33.33
Total.....	3	100.00

## EXHIBIT No. 359-W

*International Pacific Halibut Commission—Nationality distribution of staff members as of Jan. 1, 1957*

Country	Professional posts	Percentages
Canada.....	3	16.67
United States.....	15	83.33
Total.....	18	100.00

## EXHIBIT No. 359-X

*International Pacific Salmon Fisheries—Nationality distribution of staff members as of Oct. 31, 1956 (estimated)*

Country	Professional posts	Percentages
Canada.....	30	83.24
United States.....	4	11.76
Total.....	34	100.00

## EXHIBIT No. 359-Y

*South Pacific Commission—Nationality distribution of staff members as of Oct. 31, 1956*

Country	Professional posts	Percentages	Country	Professional posts	Percentages
Australia.....	23	43.40	United States.....	1	1.87
France.....	13	24.53	Other.....	5	9.43
New Zealand.....	4	7.55			
Netherlands.....	3	5.66	Total.....	53	100.00
United Kingdom.....	3	5.66			

## EXHIBIT No. 359-Z

*United Nations expanded program of technical assistance—Distribution of experts by nationality, Sept. 30, 1956*

Country	Number of experts	Percentage	Country	Number of experts	Percentage
Argentina.....	23	1.49	Malaya.....	1	.06
Australia.....	60	3.90	Mauritius.....	1	.06
Austria.....	17	1.10	Mexico.....	14	.91
Belgium.....	32	2.08	Netherlands.....	91	5.91
Bolivia.....	7	.45	New Zealand.....	19	1.23
Brazil.....	22	1.43	Norway.....	32	2.08
Canada.....	59	3.83	Pakistan.....	3	.19
Chile.....	24	1.56	Paraguay.....	1	.06
China.....	14	.91	Peru.....	14	.91
Colombia.....	5	.32	Philippines.....	8	.52
Costa Rica.....	6	.39	Poland.....	1	.06
Cuba.....	4	.26	Portugal.....	4	.26
Cyprus.....	1	.06	Puerto Rico.....	3	.19
Denmark.....	53	3.44	Rhodesia and Nyasaland, Federation of.....	1	.06
Dominican Republic.....	1	.06	Spain.....	11	.71
Ecuador.....	7	.45	Sudan.....	1	.06
Egypt.....	39	2.53	Sweden.....	43	2.79
Eire.....	7	.45	Switzerland.....	56	3.64
El Salvador.....	2	.30	Syria.....	2	.13
Finland.....	12	.78	Trinidad.....	1	.06
France.....	155	10.07	Tunisia.....	1	.06
Germany, Federal Republic of.....	45	2.92	Turkey.....	3	.19
Greece.....	12	.78	Union of South Africa.....	11	.71
Guatemala.....	3	.19	U. S. S. R.....	3	.19
Iceland.....	6	.39	United Kingdom.....	248	16.11
India.....	50	3.25	United States.....	195	12.67
Iran.....	5	.32	Uruguay.....	7	.45
Iraq.....	1	.06	Venezuela.....	7	.45
Israel.....	4	.26	Yugoslavia.....	10	.65
Italy.....	35	2.27	Stateless.....	5	.32
Japan.....	10	.65			
Jordan.....	12	.78	Total.....	1,539	100.00
Lebanon.....	9	.58			

## EXHIBIT No. 359-AA

*United Nations expanded program of technical assistance—Distribution of experts by nationality and organization, July 1, 1956*

Country	Organization									Total	Percent
	UNTA	ILO	FAO	UNESCO	ICAO	WHO	ITU	WMO			
Argentina		2	6	1	2	8			19	1.26	
Australia	8	11	23	4	10	4	1		61	4.05	
Austria	4		9	1		3			17	1.13	
Belgium	9	3	5	5	1	6			29	1.93	
Bolivia	1	2		1		2			6	.40	
Brazil	1	3	1	1		12			18	1.20	
Canada	9	1	17	7	3	24			61	4.05	
Chile	11	1	1	8		8			29	1.93	
China	1		9			3			13	.86	
Colombia	5			1		1	3		8	.53	
Costa Rica	1	1	3		2				7	.46	
Cuba	1		1			1			3	.20	
Cyprus	1								1	.07	
Denmark	5		19	4	4	15			47	3.12	
Dominican Republic	1								1	.07	
Ecuador	1	2		2		3			8	.53	
Egypt	6	12	6	10		8	1	1	44	2.92	
El Salvador			1						1	.07	
Finland	5		4		1	2			12	.80	
France	32	39	39	13	5	13	6	1	148	9.82	
Germany	3	7	21	2	2	2	1	3	41	2.72	
Guatemala	3			1					4	.27	
Greece	1	1	2		1	7			12	.80	
Haiti	1								1	.07	
Honduras	1								1	.07	
Iceland			6						6	.40	
India	10	4	14	14	2	5		1	50	3.32	
Iran	2								2	.13	
Iraq			1	3					4	.27	
Ireland			1		1	2		1	5	.33	
Israel		1	1			1			3	.20	
Italy	3	2	10	5		4			24	1.59	
Japan	3	1	2	4					10	.66	
Jordan	1	6	3	3					13	.86	
Lebanon		1	3			1			5	.33	
Mexico	2	2	1	7	2	6			20	1.33	
Netherlands	14	10	43	4	10	11			92	6.11	
New Zealand	2	1		6		6	1		16	1.06	
Norway	10	1	8	6	3	7		1	36	2.39	
Pakistan		1	2						3	.20	
Palestine			1	1					1	.07	
Paraguay			1						1	.07	
Peru	3	1	4	3		3			14	.93	
Philippines	2		2	2		3			9	.60	
Poland	1								1	.07	
Portugal			3	1		1			5	.33	
Spain			3	8	1	1	1		14	.93	
Stateless		2	3	2					7	.46	
Sweden	12	6	9	5	4	5		2	43	2.85	
Switzerland	10	4	22	4	1	4	2		47	3.12	
Syria				1					1	.07	
Tunisia		1							1	.07	
Turkey	1		4						5	.33	
Union of South Africa	1		5		1	4			11	.73	
United Kingdom	49	43	64	25	15	55	3	3	257	17.06	
United States	42	11	53	32	15	36			189	12.54	
U. S. S. R.	5					1			6	.40	
Venezuela	3	1	1	2		1			8	.53	
Yugoslavia	2		1			2			5	.33	
Total	289	184	437	199	86	281	17	13	1,506	100.00	

Mr. WILCOX. And I want to reiterate that we have been working quite hard on this problem to bring the percentage of Americans employed on these organization secretariats in line with the financial contribution which we made to the organization. But one of the problems—

Senator JOHNSTON. What do you give as a reason why we do not have as many American nationals as the other countries, in proportion?

Mr. WILCOX. Mr. Chairman, I think one of the reasons is that we are just a little too prosperous in this country, that the job opportunities in industry, business, and the professions, those opportunities are great, and the salaries and the inducements of the international agencies aren't such as to attract the high caliber individuals that these agencies would like to have.

There is another factor, too. A good many of them would be sent out as staff members on the technical assistance programs, experts going to the underdeveloped areas of the world. I think a good many Americans, with very comfortable homes and good jobs, hesitate to go to undesirable climates for 2 or 3 or 4 years, leaving their homes and their work opportunities in this country.

Those are some of the problems we face. We are trying to overcome them and do our best to get Americans to accept the challenging opportunities that are in these various international agencies.

Mr. SOURWINE. Do you mean to testify, sir, that the salary scale of the international organizations compares unfavorably with the salary scale for similar kinds of appointments in the United States?

Mr. WILCOX. That is correct.

Mr. SOURWINE. That is true, even after taking into consideration the tax benefits of international employment?

Mr. WILCOX. Yes, I think that is correct, particularly when you consider the handicaps that the employees go through in going to very hot climates, or countries where they might catch certain types of diseases, and things of that sort.

Mr. SOURWINE. You spoke of the strenuous efforts the State Department is making to procure the employment of more Americans by these international organizations. Does the State Department recommend individual applicants in any case?

Mr. WILCOX. We do not normally recommend individual applicants. If the secretary of an organization, for example, should approach me, as some of them have, for recommendations about a particular post in which he has a very keen interest, we might in that case informally advance names of individuals who might be qualified.

We do not want to leave the impression, however, that we are trying to hire for him the personnel which he is charged with the hiring, and the personnel which must be responsible to him and not to the United States Government.

Mr. SOURWINE. Do you urge individuals to make applications to these various agencies?

Mr. WILCOX. We do, indeed.

And we have in the bureau over which I have jurisdiction and individual who is charged with working on this particular problem. We have taken this matter up with the Appropriations Committees of the House and Senate, and have gotten authorization for this sort of job.

Mr. SOURWINE. What is his title?

Mr. WILCOX. He is in the room here; I don't know that I can give you his title, but he is the staff assistant, special assistant to me in the Bureau of International Organization Affairs, working on this job of encouraging the proper employment of American nationals in international agencies.

Mr. SOURWINE. You are handling it in your own office?

Mr. WILCOX. It is right in my own bureau, yes.

Mr. SOURWINE. Do you maintain in your office under this staff assistant, perhaps, facts with regard to the jobs that are presently available and those that are likely to become available?

Mr. WILCOX. We are accumulating such records, Mr. Sourwine. It takes considerable time, of course, to make real headway on this problem. He has only recently been appointed, but he is making, I am sure, a rather considerable amount of headway in this direction.

Mr. SOURWINE. If I wanted a job with the international organizations at this time, and I wanted to know what jobs were available, would you be able to tell me?

Mr. WILCOX. To a certain degree we would be able to tell you, yes. I don't know that we could tell you every job that is open, but we could be helpful to you.

Mr. SOURWINE. I would like to ask, Mr. Chairman—I don't want to ask for it by way of oral testimony—but with the approval of the chairman, I would like the Department to give us a little statement for the record, an outline of all the things they are doing to get Americans employed. I am sure there are a number of things they are doing in that regard.

Mr. WILCOX. We would be glad to submit that for the record, if you so desire.

Senator JOHNSTON. We do desire it, because I think it would be helpful in the employment of American nationals.

Mr. SOURWINE. I think it would also be helpful if all the Americans who want to get jobs in these organizations knew who to go to in the State Department.

Senator JOHNSTON. There is no question about it. Frequently someone comes to me wanting to know how to get a certain job, and I don't know just where to tell them to go.

Mr. WILCOX. We will be glad to be helpful in that respect, and we will be glad to have the names of really qualified Americans called to our attention.

(The information submitted by Mr. Wilcox was marked "Exhibit No. 360" and is as follows:)

#### EXHIBIT No. 360

#### FUNCTIONS OF INDIVIDUAL ASSIGNED TO WORK ON MATTERS RELATIVE TO THE EMPLOYMENT OF UNITED STATES NATIONALS IN INTERNATIONAL ORGANIZATIONS

The Department of State recently established a new position as Special Assistant to the Assistant Secretary of the Bureau of International Organization Affairs to permit assignment of an officer to work full time on matters related to the employment of United States nationals in international organizations. The position has been filled since September 1956.

The responsibilities of the position are to:

(a) Assist international organizations to find the best United States recruiting sources for each occupational skill being sought.

(b) Enlist the support of these recruiting sources to make an organized effort to produce well-qualified candidates as vacancies in international organizations occur.

(c) Serve as a focal point within the United States Government for seeing that prompt action is taken on problems encountered either by international organizations or by recruiting sources as regards employment of United States nationals.

(d) Develop a panel of names of qualified candidates for certain key international organization positions where the international organization specifically requests this type of assistance.

(e) Initiate and follow through on general programs aimed at improving recruiting conditions for all international organizations.

In connection with the above responsibilities, following are several typical projects that have been undertaken and are now in the process of development:

(a) A start has been made toward acquiring full and current information on the vacancy situation in all international organizations. The purpose is to establish for the first time at a central point vacancy data that can be used to determine the overall scope of employment opportunities in international organizations.

(b) Background information has been obtained to begin analyses of the recruitment methods in the United States of the major international organizations. The purpose of these analyses will be to assist international organizations in eliminating unproductive recruiting sources and in creating more responsiveness in recruiting sources known to possess the best qualified candidates for the various occupational skills required.

(c) A study has been made and certain actions have been taken to develop a positive program within the Federal Government to make Federal personnel available to international organizations in greater numbers than heretofore. (The Federal service represents an excellent recruiting source, since the training and experience acquired in a great variety of occupational fields are precisely what are needed by international organizations.)

(d) Authoritative information is being obtained concerning employment conditions, qualification requirements, application processes, etc., of international organizations. The purpose is to establish a central informational service for United States nationals who are seeking general or specific information about international organization employment opportunities and facts concerning the nature of such employment.

(e) Considerable attention is being given to ways in which more professional prestige and public recognition can be attached to international organization assignments. This is one of the few effective means by which highly qualified United States nationals can be attracted away from the high-salary scales and generally favorable employment conditions now existing in the United States. (Well-qualified personnel of many countries seek assignments with international organizations because of the improved living conditions and higher salaries such employment will bring them. The reverse situation is true as regards well-qualified United States nationals, who usually have to be sought out and induced to accept international organization assignments on grounds other than salary rates or improved living conditions.)

As experience is gained in developing a program to assist international organizations to recruit in the United States, an increasing number of steps will be taken that should have beneficial effects both for the organizations and for the interests of the United States. However, the major emphasis of this program will be on attracting highly qualified, representative United States nationals to international organizations rather than on merely increasing the number of Americans employed by international organizations.

Mr. SOURWINE. Mr. Wilcox, do you think under the present procedure, as it is worked out, you are able to prevent the employment of American nationals of questionable loyalty to the United States?

Mr. WILCOX. Yes, I think it is working out quite satisfactorily.

Mr. SOURWINE. Would it be helpful in any way for American nationals employed by international organizations to be required to answer questions? You pointed out in your statement that the Execu-

tive order wasn't mandatory. If there was a way whereby they could be required to answer these questionnaires, would it be helpful to this program?

Mr. WILCOX. Well, sir, I really don't think it is necessary. I think the procedure that we have is working adequately now, and I do think it would stir up questions in the minds of the agencies themselves and the countries that belong to the agencies as to whether the procedure wasn't working satisfactorily and whether we had doubts about it, when in fact I don't really feel that we have or that we should have doubts about it, because I do believe that we are meeting the purposes and intents of the Congress with respect to this matter in a very satisfactory way.

Mr. SOURWINE. You do not think it would be helpful to have some force requiring answering the questionnaire?

Mr. WILCOX. No, sir. On the contrary, I think it would be unhelpful.

Mr. SOURWINE. Do they all answer the questionnaires at the present time?

Mr. WILCOX. Yes.

Mr. SOURWINE. They all answer them?

Mr. WILCOX. Yes.

Mr. SOURWINE. You have had instances in which they refused to answer them; have you not?

Mr. WILCOX. In the early days, yes. But I think those cases have all been taken care of, as far as I know. And we don't now have any difficulty in securing the information that is needed with respect to these individuals.

Mr. SOURWINE. Could you furnish for the record the number of cases in which individuals refused to answer questionnaires, and the date of the most recent of such cases; and, if you know, the number of persons, if any, who refused to answer questionnaires who are still employed?

Mr. WILCOX. Yes, sir; we will be glad to do that.

Mr. SOURWINE. The answer may be zero, of course.

Mr. WILCOX. We will be glad to do that.

Mr. Toussaint is here, and, as you know, Mr. Toussaint also spent a number of years on Capitol Hill, and is also familiar with the problem under consideration and the congressional interest in the problem.

(The information furnished by Mr. Wilcox was marked "Exhibit No. 361" and is as follows:)

#### EXHIBIT No. 361

##### REFUSALS TO ANSWER QUESTIONNAIRES

It seems quite probable that, upon the issuance of Executive Order 10422 on January 9, 1953, some resignations came about because the individuals did not wish to submit Executive Order 10422 forms. Although such resignations would constitute implied refusals to submit the Executive order forms, the records held by the international organizations concerned would not indicate that the resignations were submitted in order to avoid completing the Executive order forms. There is, therefore, no accurate record as to the total number of express or constructive refusals to submit the Executive Order 10422 investigative forms.

Investigations were conducted and completed, however, on five individuals who did not submit Executive order forms and who remained in the employ of the international organizations. The status of these five cases is as follows:

1. Unfavorable determinations issued by the International Organizations Employees Loyalty Board.....	4
2. Terminations by the international organizations concerned.....	3
3. Unfavorable determinations pending in the international organizations concerned (unfavorable determination issued December 1956 transmitted to international organization December 1956).....	1
4. Cases still under consideration by the International Organizations Employees Loyalty Board.....	1

#### EXHIBIT No. 362

#### STATUS OF UNFAVORABLE DETERMINATIONS UNDER EXECUTIVE ORDER 10422, AS AMENDED

Executive Order 10422, issued January 9, 1953, as amended by Executive Order 10459, issued June 2, 1953, provides for investigation of United States nationals employed or being considered for employment by international organizations as to their loyalty to the United States.

Of the American citizens who were employed by all of the international organizations at the time the Executive orders came into effect, 17 have been determined by the International Organizations Employees Loyalty Board to be of doubtful loyalty to the United States. Of the 17 employees of doubtful loyalty, 9 have been terminated from their employment with the international organization concerned. The remaining eight-employee cases are pending in the international organizations.

Since issuance of the orders, more than 3,000 applicants have been investigated for employment with international organizations. Of these, there has been only one determination of doubtful loyalty issued by the International Organizations Employees Loyalty Board. The international organization concerned, upon being notified of this doubtful loyalty determination, declined to employ the individual. It is obvious from the almost complete lack of doubtful loyalty cases arising since January 1953 that the clearance procedure has been sufficiently publicized and is sufficiently familiar to prospective employees that it serves as a deterrent to those individuals who do not measure up and who might otherwise seek employment with international organizations.

Mr. SOURWINE. Do you know, sir, what the Soviet Union does in regard to seeking employment of its nationals and clearing its nationals for employment with the international organizations?

Mr. WILCOX. Only in general terms, Mr. Sourwine. It is my assumption that any Soviet national employed by the Secretariat of the United Nations or by the specialized agencies would, of course, have the approval of the Soviet Government, and my assumption is that adequate clearance procedures would have been undertaken in those cases.

I may say, however, that the Soviet Union does not have on the staffs of the international organizations the number of individuals to which they would be entitled in accordance with the contributions which they make to these agencies.

Mr. SOURWINE. For the sake of that comparison, would you furnish us with regard to the Soviet Union and the satellite countries behind the Iron Curtain comparable figures with those that you are going to furnish with regard to Americans, the number employed, and the percentage of contribution?

Mr. WILCOX. I think we can furnish that. I am not sure it will be as completely accurate as the figures that we furnish with respect to American nationals.

(See exhibits Nos. 358 and 358-A.)

Mr. SOURWINE. Would it be helpful, sir, if American nationals employed by international organizations could be required to appear and give testimony before the International Employees Loyalty Board, or a division of that Board, if and when it was convened at the place where they have their station?

Mr. WILCOX. I don't believe, sir, that that would help the situation. My impression would be that the procedure—I don't mean to rest my case on this one point—but it does seem to me that the procedure that we have is working fairly well, and I think it would not be helpful to encumber it with that additional requirement, when we could get the information we want with the methods we now use.

Mr. SOURWINE. There have been cases where employees have refused to appear before the Board?

Mr. WILCOX. There have been.

Mr. SOURWINE. You think that is all over now?

Mr. WILCOX. I think that is in the past, I think we are clear on that, and we get good cooperation now from individuals in organizations.

Mr. SOURWINE. Would it be helpful if the Board had the right to compel answers from those who appear before it, in exceptional instances where an individual may claim his privilege under the fifth amendment?

Mr. WILCOX. Again, sir, I don't think it would be particularly helpful, because we are able to get the answers we want at the present time.

Mr. SOURWINE. The Board has no authority to compel answers, does it?

Mr. WILCOX. I think that is correct.

Mr. SOURWINE. You can't even put an employee as a witness under oath?

Mr. WILCOX. I think that is correct.

Mr. SOURWINE. Do you think it would be helpful if the Board had the authority to put a witness under oath?

Mr. WILCOX. Well, sir, the time might come when an individual would be recalcitrant, but I think he would feel it would not be in his interest to do that sort of thing, because the chances of him getting a job would be pretty slim if he didn't cooperate.

Mr. SOURWINE. You say the time might come. You mean it hasn't happened yet?

Mr. WILCOX. No, sir, not under this procedure.

Mr. SOURWINE. No witness has refused to testify?

Mr. WILCOX. That is correct.

Mr. SOURWINE. Mr. Wilcox, this is a trial question. When Mr. Pierce Gerety testified before this committee at the time when he was Chairman of the International Organizations Employees Loyalty Board, he stated that there was a clique of people in UNESCO who placed the interests of communism and Communist ideology above any service to UNESCO and above their own countries. Do you have any opinion on that point?

Mr. WILCOX. Was he referring to American nationals, or was he referring to other Secretariat members?

Mr. SOURWINE. He clearly was not referring entirely to American nationals, although I gathered that there were some included in this clique. But he did not mention them by name or countries involved, he simply stated that there was a clique in UNESCO who placed the

interests of communism and Communist ideology above any service to UNESCO and above their own countries.

Mr. WILCOX. If I may, in the first instance, confine my remark to American nationals, I would say that certainly if that were true, then it no longer applies. And then, going into the second phase of my answer, I would say that in UNESCO, as in most international organizations to which the Soviet Union and its satellite states belong, there are, of course, members of the Secretariat from those countries. And I would be greatly surprised if they did not share the views of their governments.

I have stated earlier, however, that the number of Soviet and satellite staff members is not as large as the number to which they would be entitled if they were to make available staff members in accordance with the size of the contribution they make.

Mr. SOURWINE. You think it is entirely proper that nationals of foreign countries who are employed by these international organizations should carry the interest of their own countries at the top of their consideration.

Mr. WILCOX. Well, sir, that is a difficult question, of course, they do have a loyalty to the international organization which employs them. But my assumption is that a good American, going into an organization of this kind, would remain a good American, and that there are not really any conflicting loyalties as between his loyalty as an American citizen—I think he ought to remain a good American citizen—and his loyalty to the agency which employs him.

Mr. SOURWINE. Of course there shouldn't be. You have jumped the point. I asked you about those who were nationals of foreign countries, and the second question would have referred to Americans. You have mentioned that you felt the employees who were nationals of foreign countries held the interests of their own government very closely at heart.

Mr. WILCOX. Yes. I think it is rather natural that people recruited from a particular country would tend to reflect in varying degrees the ideals and the sentiments and the aspirations of the land that gave them birth, origin—I think it is a rather natural thing.

If I may get back specifically to your question about UNESCO, I have been somewhat concerned about UNESCO, because there have been some charges made about it. I looked into the findings of the American Legion committee set up to look into UNESCO, and it is my feeling that the report of that committee was a good, solid report, and I could not, myself, think that UNESCO is engaged in attempting to spread communism in the world, or to spread anything like world citizenship, or anything of that sort.

Mr. SOURWINE. I hadn't gone into the question of a general charge against UNESCO, I was asking specifically about the matter as to which Mr. Gerety had expressed an opinion.

Mr. WILCOX. I do not think that—if I can put it another way—while there are, of course, staff members from the satellite countries on the staff of UNESCO, I do not think they are exerting an undue influence, and I do not think they are in any sense controlling the program of the activities of that agency, I think it is in good hands, and I think it is being soundly run at the present time.

Senator JOHNSTON. I believe from your statement you do keep a complete record of each nation as to their own nationals that are employed by the United Nations?

Mr. WILCOX. We can get that for you, sir.

Senator JOHNSTON. Now, then, do you have any record of, say, an American who was one time a citizen of another nation?

Mr. WILCOX. We can get that, too.

(This information was not available when the hearing was prepared for printing.)

Senator JOHNSTON. We ought to have that in regard to the different ones to show a true picture of it all. I am not questioning the loyalty of anybody that comes from another nation, but at the same time I believe that somebody that grew up in the United States would have a sympathetic viewpoint as to anything that might come up concerning the United States, and it might be true of other people that were born in other countries.

Mr. WILCOX. Could we take a certain date, a cutoff date, Mr. Chairman, in compiling those dates?

Senator JOHNSTON. Whatever you have to do. And I think you would have to do that. But we would like to have the records on that.

Mr. SOURWINE. The application forms as used in this program, have they been changed since last year? In other words, have they been changed since they were offered for the record a year ago?

Mr. WILCOX. It is my understanding that they have not been changed, Mr. Sourwine.

Mr. SOURWINE. I have no more questions of this witness.

Senator JOHNSTON. Any questions?

Senator JENNER. I have none.

Senator JOHNSTON. Thank you, Mr. Wilcox.

(At this point in the hearing, Mr. Wilcox completed his testimony. The subcommittee then called Henry S. Waldman, chairman, International Organizations Employees Loyalty Board, Elizabeth, N. J. Mr. Waldman's testimony is printed in the next volume of this series, part 38 of Scope of Soviet Activity in the United States.)



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